United Nations TD/B/62/1

United Nations Conference on Trade and Development

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Trade and Development Board
Sixty-second session
Geneva, 14–25 September 2015
Item 2 of the provisional agenda
Adoption of the agenda and organization of the work of the session

Provisional agenda and annotations

Note by the UNCTAD secretariat

The provisional agenda for the sixty-second session of the Trade and Development Board is reproduced in chapter I below. The secretariat's annotations, contained in chapter II, are intended to provide essential background information covering the provisional agenda items, together with a brief description of the relevant documentation.

A checklist of documents relating to all agenda items will be issued at the beginning of the session.

GE.15-13480(E)

Please recycle

I. Provisional agenda

1. Procedural matters:
   (a) Election of officers
   (b) Adoption of the agenda and organization of the work of the session
   (c) Adoption of the report on credentials
   (d) Provisional agenda for the sixty-third session of the Board
2. High-level segment: Development strategies in a globalized world:
   (a) Multilateral processes for managing sovereign external debt
   (b) Role of women as a catalyst for trade and development
   3. Interdependence: Financialization and macroeconomic fragility in the global economy
4. Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Fourth progress report
5. Economic development in Africa: Unlocking the potential of Africa's services trade for growth and development
6. Evolution of the international trading system and its trends from a development perspective:
   - The role of smallholder farmers in sustainable commodities production and trade
7. Investment for development: Reforming the international investment regime
8. Preparatory process for the fourteenth session of the Conference:
   (a) Establishment of the Preparatory Committee
   (b) Approval of the provisional agenda of the Conference
9. UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields
10. Technical cooperation activities
    (a) Review of the technical cooperation activities of UNCTAD
    (b) Report on UNCTAD assistance to the Palestinian people
11. Report of the Seventh United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices
12. Follow-up to the Joint Inspection Unit report and the agreed conclusions of the twenty-sixth special session of the Trade and Development Board
13. Report of the Working Party on the Strategic Framework and the Programme Budget
14. Other matters in the field of trade and development:

(a) Progressive development of the law of international trade: Forty-eighth annual report of the United Nations Commission on International Trade Law

(b) Report of the Joint Advisory Group on the International Trade Centre

15. Institutional, organizational, administrative and related matters:

(a) Report by the Chair of the Advisory Body set up in accordance with paragraph 166 of the Bangkok Plan of Action on the implementation of courses by the secretariat in 2014–2015 and their relevant impact; and the appointment of members of the Advisory Body for 2016

(b) Designation of intergovernmental bodies for the purposes of rule 76 of the rules of procedure of the Board

(c) Designation of non-governmental organizations for the purposes of rule 77 of the rules of procedure of the Board

(d) Review of the calendar of meetings

(e) Membership of the Working Party for 2016

(f) Review of the lists of States contained in the annex to General Assembly resolution 1995 (XIX)

(g) Administrative and financial implications of the actions of the Board

16. Other business

17. Adoption of the report

II. Annotations to the provisional agenda

1. The provisional agenda of the sixty-second session of the Trade and Development Board was approved by silent procedure on 27 July 2015.

Item 1
Procedural matters:

(a) Election of officers

2. The rules of procedure of the Trade and Development Board are contained in documents TD/B/16/Rev.4 and Corr.1.

3. In accordance with rules 18 and 19 of the rules of procedure, the Bureau of the Board consists of 12 members: the President, 10 Vice-Presidents and the Rapporteur, i.e. four members from list A (Africa/Asia), four from list B, two from list C and two from list D, as referred to in the annex to General Assembly resolution 1995 (XIX), as amended.

4. In accordance with the cycle of rotation that has been in operation since the ninth session of the United Nations Conference on Trade and Development (UNCTAD IX), the President of the Board for the sixty-second session will be a representative of one of the States in list C and the Rapporteur will be a representative of one of the States in list D. The 10 Vice-Presidents will therefore be as follows: four from list A (Africa/Asia); four from list B; one from list C; and one from list D.

(b) Adoption of the agenda and organization of the work of the session

Agenda

5. The provisional agenda for the session is reproduced in chapter I above.

Organization of work

6. In order to accommodate the suggestions made by delegations, meetings of the session of the Board have been organized in such a way as to ensure that no two meetings will take place simultaneously. They have been designed with a view to ensuring effective participation by delegations, particularly small delegations, and also to making the most efficient use of the conference resources of the United Nations.

Establishment of sessional committees

7. In accordance with rule 62 of its rules of procedure, the Board may wish to set up two sessional committees. It is proposed to allocate agenda item 4 to Sessional Committee I and agenda item 5 to Sessional Committee II.

(c) Adoption of the report on credentials

8. In accordance with rule 17.2 of the rules of procedure, the Bureau of the Board will examine the credentials and submit its report to the Board.

In-session documentation

(d) Provisional agenda for the sixty-third session of the Board

9. The draft provisional agenda for the sixty-third session of the Board will be prepared by the secretariat. The Board may wish to refer consideration of this item to the consultations of the President of the Board.

Item 2
High-level segment: Development strategies in a globalized world:

(a) Multilateral processes for managing sovereign external debt

10. Deliberations by the Trade and Development Board under this agenda item will examine the recurrent problem of external debt overhang in developing and transition economies. This has been a core topic in UNCTAD work since 1964 involving the three pillars of its mandate. Among external debt issues, those related to sovereign debt are of particular interest as debt crises, even if they are caused by private agents, usually lead to public overindebtedness. In addition, sovereign debt problems cannot be handled in the same way as private debt: they require specific treatment consistent with the public interest and national sovereignty.

11. The background documentation for the deliberations of the Board under this item is contained in chapter V of the *Trade and Development Report, 2015*. The secretariat will provide a document with a shortened version of that chapter. The document will address the current mechanisms in place for handling sovereign debt crises and examine their shortcomings for providing a rapid solution that would minimize the cost of the crises and re-establish the conditions for economic growth and debt sustainability. It will examine possible actions for modifying this framework, which can be complementary. These include improving debt contracts; establishing a predictable, effective and fair sovereign debt workout mechanism; and adopting a global set of principles ("soft law") that would take

into account public interests in debt sustainability and set out a procedural route for their defence, including against holdout litigation.

Documentation

TD/B/62/7	Development strategies in a globalized world: Multilateral processes for managing sovereign external debt

(b) Role of women as a catalyst for trade and development

12. Economic development and social and cultural shifts have led to a decrease in many gender-related inequalities across the world. Prominent among those shifts are the rise in female educational enrolment, as compared to that for males, and increases in labour-force participation. These shifts, however, cannot be considered an automatic outcome of development but rather the result of concerted policy action and resource allocation for gender equality. Efforts to mainstream gender equality into policymaking have been critical in this regard.

13. The high-level segment on the role of women as a catalyst for trade and development will provide an opportunity to take the gender issue to a new level of political prominence and yield new insights into the relationship between trade, development and women's economic empowerment. The high-level segment will revolve around a high-profile, interactive round table that will bring together multiple stakeholders ranging from policy leaders to academia, the private sector and civil society, including the media.

Item 3
Interdependence: Financialization and macroeconomic fragility in the global economy

14. Deliberations by the Trade and Development Board under this agenda item will provide an opportunity to review the evolution of the world economy in 2014 and 2015, and discuss if it may be entering into a period of "secular stagnation". The review will analyse the factors that are still hindering the recovery of sustained growth, particularly on the demand side, without disregarding the need for expanding and upgrading production and providing the means for financing economic recovery and development.

15. The debate will consider recent trends in financial markets and flows and address the vulnerabilities faced by developing countries. In particular, it will examine how the financialization process actually deepened after the global crisis, and how it has affected macroeconomic dynamics in developing economies, eventually leading to a path of protracted slowdown and heightened risks of financial crises.

16. As background documentation for the Board's deliberations, the secretariat will make available through the Delegates Portal a non-paper with restricted information that will summarize the findings and messages of chapters I and II of the *Trade and Development Report, 2015*. The report will be under embargo until 6 October 2015. The non-paper will review the main trends of the global economy, with a particular focus on recent financial developments and their macroeconomic impact.

Item 4
Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Fourth progress report

17. As at previous sessions, the Board at its sixty-second session will deliberate on progress in implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action) in the areas of the mandates and competence of UNCTAD. The Board's consideration of item 4 of the provisional agenda will be based on the fourth progress report prepared by the secretariat, in accordance with paragraphs 153 and 156 of the Istanbul Programme of Action. The report provides comprehensive information on the UNCTAD contribution to the implementation of the Istanbul Programme of Action in 2014, together with preliminary conclusions and the way forward.

Documentation

TD/B/62/8 — Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Fourth progress report

Item 5
Economic development in Africa: Unlocking the potential of Africa's services trade for growth and development

18. This agenda item will consider the *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development*, which examines some of the major policy issues that underlie Africa's services sector and provides policy guidance on how services could contribute to Africa's regional integration and generate inclusive growth and employment. More broadly, the report discusses how services can contribute to sustainable growth and development continent-wide, especially given the enabling role of services and their capacity to link with other sectors. Africa needs to boost services trade and become better integrated into global value chains. The report makes specific and actionable policy recommendations on how to better leverage Africa's services trade and the related development, employment and growth benefits. The report emphasizes the need for greater policy coherence at the national, regional and international levels to address services sector and trade policy disconnects.

Documentation

TD/B/62/4 — Economic development in Africa: Unlocking the potential of Africa's services trade for growth and development (overview)

UNCTAD/ALDC/AFRICA/2015 — *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development*

Item 6
Evolution of the international trading system and its trends from a development perspective

19. Paragraph 18 (d) of the Doha Mandate of the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII) states that UNCTAD should "continue to monitor and assess the evolution of the international trading system and its trends from a development perspective". In response to this mandate, under this agenda item the Trade and Development Board will discuss the recent trends in international trade in goods and services and trade policy. The Board will deliberate upon trends in trade flows, both in goods and services, and issues such as global value chains, food security, energy and environmental sustainability, agriculture trade, trends in commodities and the blue economy. The discussion will also cover emerging trends and issues in the multilateral and regional trading systems and their interlinkages with national policies.

Documentation

TD/B/62/2	Evolution of the international trading system and its trends from a development perspective

The role of smallholder farmers in sustainable commodities production and trade

20. Under this sub-item, the Board will consider the role of small holder farmers in sustainable commodities production and trade. The secretariat has prepared a background document which highlights key messages from the forthcoming UNCTAD *Commodities and Development Report 2015: Smallholder Farmers and Sustainable Commodity Development*. The note argues that smallholders are key actors in the quest for a more inclusive and socially and environmentally sustainable agricultural development model. Building on UNCTAD's integrated approach to trade, finance, investment and technology, it highlights the report's proposed policy framework and plan of action for smallholders.

Documentation

TD/B/62/9	The role of smallholder farms in sustainable commodities production and trade

Item 7
Investment for development: Reforming the international investment regime

21. The current international investment agreement regime is multilayered, multifaceted and highly fragmented. The international investment agreement regime is now undergoing a period of reflection, reviews and revisions. Reform should be systematic and comprehensive and requires coordinated action from all stakeholders. This is crucial at a time when the sustainable development goals will be formally adopted by the United Nations, which will require scaling up existing funding mechanisms.

22. UNCTAD, in its 2012 Investment Policy Framework for Sustainable Development, provided useful guidance for this endeavour. Most recently, it developed an action-oriented road map for reform of international investment agreements.

23. The session will present the analysis, findings and proposals in the *World Investment Report 2015: Reforming International Investment Governance*, which examines the topic in depth. This will be followed by a range of perspectives from eminent panellists and a

subsequent interactive dialogue among participants and panellists on the topic, bringing in national, regional and interregional perspectives. In addition, the session will provide an opportunity for a briefing by the secretariat on the latest developments regarding trends in and policies on foreign direct investment.

Documentation

UNCTAD/WIR/2015 and Overview *World Investment Report 2015: Reforming International Investment Governance*

Item 8
Preparatory process for the fourteenth session of the Conference:

24. The Secretary-General of UNCTAD will present his report for the fourteenth session of the Conference.

(a) Establishment of the Preparatory Committee

25. In accordance with past practice, the Board will establish a Preparatory Committee to be chaired by the President of the Board in order to prepare, inter alia, the pre-Conference text.

In-session documentation

(b) Approval of the provisional agenda of the Conference

26. The substantive theme and sub-themes for the Conference are expected to have been approved by the Board at the President's consultations. The Board should therefore have before it a draft provisional agenda prepared by the secretariat, comprising the substantive theme and subthemes as approved by member States and other standard items.

In-session documentation

Item 9
UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields

27. In its resolution 57/270 B, the General Assembly stressed the need to make maximum use of existing United Nations mechanisms for the purpose of reviewing the implementation of commitments made within the United Nations system in key areas of development. In this regard, it invited the Trade and Development Board to contribute, within its mandate, to the implementation and review of the progress made in the implementation of the outcomes of the major United Nations conferences and summits, under its relevant agenda items.

28. Paragraph 11 of the Accra Accord states that:

> UNCTAD, within its mandate, should make a contribution to the implementation and follow-up to the outcomes of relevant global conferences. It should continue to contribute to the achievement of the internationally agreed development goals, including the Millennium Development Goals. With all aspects of its work it will help to implement the global development agenda and pave the way to 2015. It should also contribute to the implementation of specific actions requested in the 2005 World Summit, the Programme of Action for the Least Developed Countries

for the Decade 2001–2010, the Monterrey Consensus of the International Conference on Financing for Development, the Johannesburg Plan of Implementation agreed at the World Summit on Sustainable Development, and the Declaration of Principles and the Plan of Action of the World Summit on the Information Society. It should also contribute to furthering the implementation of the internationally agreed goals in the Doha Ministerial Declaration and other relevant decisions.

29. Similarly, paragraphs 18 and 18 (n) of the Doha Mandate state that "UNCTAD should continue to work within its mandate – through its three pillars, delivering meaningful results, utilizing available resources, while enhancing synergies and promoting complementarities with the work of other organizations. In this regard, UNCTAD should... implement and follow up, as appropriate, relevant outcomes from global conferences and summits on development".

30. The Board is expected to respond to the request addressed to it by the General Assembly in paragraph 27 (a) of resolution 57/270 B on the basis of a note prepared by the UNCTAD secretariat.

Documentation

TD/B/62/5	Progress made in the implementation of the outcomes of the major United Nations conferences and summits, and UNCTAD contributions

Item 10
Technical cooperation activities:

(a) Review of the technical cooperation activities of UNCTAD

31. The Board will review the technical cooperation activities undertaken in 2014, as well as developments in UNCTAD's technical cooperation – in particular, matters of capacity-building related to trade and investment, and issues related to progress in the implementation of decision 478 (L) of the Board regarding technical cooperation. In considering this item, the Board will have as supporting background documentation the outcome of the seventy-first session of the Working Party on the Strategic Framework and the Programme Budget, due to be held from 7 to 9 September 2015, and a review of technical cooperation activities undertaken in 2014.

Documentation

TD/B/WP/272	Review of the technical cooperation activities of UNCTAD and their financing
TD/B/WP/272/Add.1	Review of the technical cooperation activities of UNCTAD and their financing – Annex I: Review of activities undertaken in 2014 (English only)
TD/B/WP/272/Add.2	Review of the technical cooperation activities of UNCTAD and their financing – Annex II: Statistical tables (English only)
TD/B/WP/275	Report of the Working Party on the Strategic Framework and the Programme budget on its seventy-first session

(b) Report on UNCTAD assistance to the Palestinian people

32. As in previous years, the UNCTAD report on assistance to the Palestinian people analyses recent economic developments in the Occupied Palestinian Territory. The report notes a contraction in 2014 in the gross domestic product and gross domestic product per capita of the Occupied Palestinian Territory and a continued expansion of Israeli

settlements. It analyses the impact of Israel's withholding of Palestinian public clearance revenue in early 2015. It highlights the ramifications of the conflict and military operation in Gaza in July–August 2014 and argues that, as socioeconomic conditions are now at their lowest point since 1967, Gaza's reconstruction has been slow. The report calls on the international community to speed up its support for the rehabilitation of crucial infrastructures and to halt "de-development" in the Occupied Palestinian Territory. The report updates the Board on recent UNCTAD technical cooperation activities in the Occupied Palestinian Territory and the challenges the secretariat faces in implementing these activities.

Documentation

TD/B/62/3 — Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory

Item 11
Report of the Seventh United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices

33. The report of the Seventh United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, which took place in Geneva from 6 to 10 July 2015, will be before the Trade and Development Board for its consideration and onward submission to the General Assembly.

Documentation

TD/RBP/CONF.8/11 — Report of the Seventh United Nations Conference to Review All Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices

Item 12
Follow-up to the Joint Inspection Unit report and the agreed conclusions of the twenty-sixth special session of the Trade and Development Board

34. The Conference at its thirteenth session in 2012 in Doha (UNCTAD XIII) decided that (a) the Trade and Development Board would meet in a special session six weeks after the official circulation of the document entitled "Review of management and administration in the United Nations Conference on Trade and Development (UNCTAD)" (JIU/REP/2012/1), in all official languages of the United Nations, in order to address the report and its contents and decide on ways for follow-up and effective implementation of the Board's decisions; (b) the annual sessions of the Trade and Development Board would consider and evaluate progress on the implementation of decisions in relation to the report and take action, as appropriate; and (c) in that regard, the Trade and Development Board would report on progress to the next Conference.

35. The Trade and Development Board at its fifty-ninth session considered a workplan for enhancing the management and administration of UNCTAD, which was developed in accordance with the agreed conclusions of the twenty-sixth special session of the Trade and Development Board held on 6 July 2012. At the fifty-ninth session, the Board requested the secretariat to enhance the management and administration of UNCTAD through the

implementation of the workplan presented at the session, as contained in document TD/B/59/CRP.2, and based on the deliberations of the Board.

36. The Board has considered annual comprehensive progress reports on implementation at its sixtieth session in 2013 and sixty-first session in 2014. At the sixty-first session, the Board was also presented with the Secretary-General's additional initiatives aimed at building a stronger UNCTAD. The secretariat was requested to continue implementation of the workplan and to present the next progress report on implementation at its sixty-second session in September 2015. The secretariat will report on measures that have been implemented or put in place to ensure that the organization is on track towards delivering better results against its mandates.

Documentation

TD/B/62/6	UNCTAD: On track for delivering on sustainable development

Item 13
Report of the Working Party on the Strategic Framework and the Programme Budget

37. The report of the Working Party on its seventy-first session will be before the Board for its consideration.

Documentation

TD/B/WP/275	Report of the Working Party on the Strategic Framework and the Programme Budget on its seventy-first session

Item 14
Other matters in the field of trade and development:

(a) Progressive development of the law of international trade: Forty-eighth annual report of the United Nations Commission on International Trade Law

38. In accordance with General Assembly resolution 2205 (XXI), the report of the forty-eighth session of the United Nations Commission on International Trade Law will be before the Board.

Documentation

A/70/17	Report of the United Nations Commission on International Trade Law on its forty-eighth session

(b) Report of the Joint Advisory Group on the International Trade Centre

39. The Trade and Development Board will consider the report of the forty-ninth session of the Joint Advisory Group on the International Trade Centre.

Item 15
Institutional, organizational, administrative and related matters:

(a) Report by the Chair of the Advisory Body set up in accordance with paragraph 166 of the Bangkok Plan of Action on the implementation of courses by the secretariat in 2014–2015 and their relevant impact; and the appointment of members of the Advisory Body for 2016

40. In accordance with Board decision 466 (XLVII), the Chair of the Advisory Body will inform the Board about the activities of the Advisory Body and about the

implementation of paragraph 166 of the Bangkok Plan of Action. The Board will be invited to appoint members of the Advisory Body for 2016, on the basis of the recommendations of the regional groups.

(b) Designation of intergovernmental bodies for the purposes of rule 76 of the rules of procedure of the Board

41. The UNCTAD secretariat has received no applications requesting inclusion in the list provided for in rule 76 of the rules of procedure of the Board. A list of the approved intergovernmental organizations is contained in document TD/B/IGO/LIST/11.

(c) Designation of non-governmental organizations for the purposes of rule 77 of the rules of procedure of the Board

42. The UNCTAD secretariat has received no applications requesting inclusion in the list provided for in rule 77 of the rules of procedure of the Board. A list of the approved non-governmental organizations is contained in document TD/B/NGO/LIST/19.

(d) Review of the calendar of meetings

43. The Board will have before it the calendar of meetings for the remainder of 2015 and for 2016.

In-session documentation

(e) Membership of the Working Party for 2016

44. The Board will be required to approve the membership of the Working Party for 2016 on the basis of nominations from the regional groups.

In-session documentation

(f) Review of the lists of States contained in the annex to General Assembly resolution 1995 (XIX)

45. The Board will have before it, as appropriate, the updated membership list of UNCTAD and the Board.

Documentation

TD/B/INF.228	Membership of UNCTAD and membership of the Trade and Development Board

(g) Administrative and financial implications of the actions of the Board

46. The Board will be informed during the session of the administrative and financial implications of any proposals before it.

In-session documentation, if required

Item 16
Other business

Item 17
Adoption of the report

47. In accordance with paragraph 195 of the Accra Accord, the report of the Board to the General Assembly will contain negotiated outcomes on Africa, least developed countries and technical cooperation, as well as Chairs' summaries and negotiated outcomes addressed to the secretariat.

United Nations TD/B/62/2

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Trade and Development Board
Sixty-second session
Geneva, 14–25 September 2015
Item 6 of the provisional agenda

Evolution of the international trading system and its trends from a development perspective

Note by the UNCTAD secretariat

Executive summary

The last two decades have been characterized by unprecedented trade integration. International trade in goods and services has grown dramatically from about US$5 trillion in 1994 to about US$24 trillion in 2014. The trade integration process has brought many benefits to the world and has created enormous opportunities for economic development of many countries. However, the benefits and opportunities of trade integration have not always been inclusive and have not always translated into sustainable economic, social and environmental well-being.

For the ultimate objective of inclusive and sustainable development, trade integration should not only foster economic growth but should also address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. The close linkage between trade and sustainable development and poverty alleviation will be a defining feature in the post-2015 development paradigm if trade is to have an impact on the sustainable development goals.

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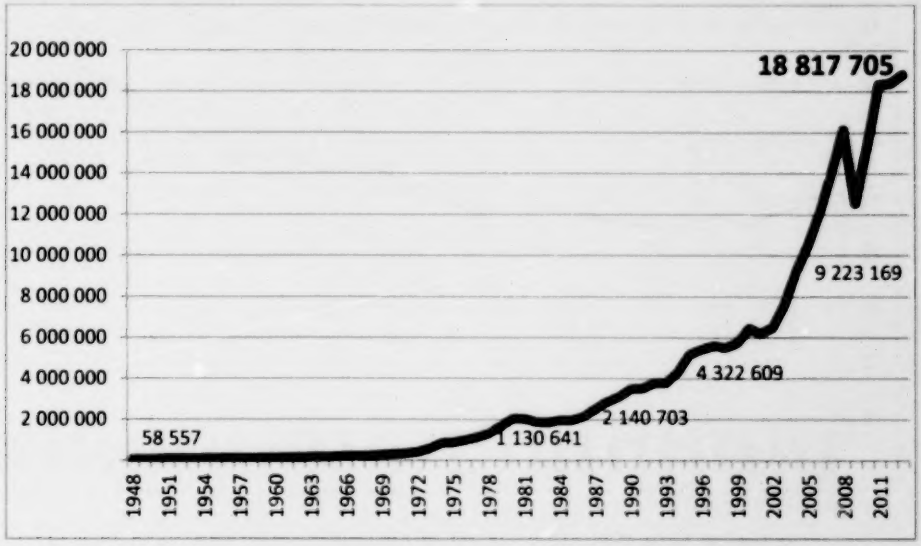
I. Introduction

1. Paragraph 18(d) of the Doha Mandate of the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII) states that UNCTAD should "Continue to monitor and assess the evolution of the international trading system and its trends from a development perspective". Accordingly, the present report (a) examines the relationship between international trade and inclusive and sustainable development in the context of the unprecedented trade integration of the last two decades; (b) reviews issues relating to: the gender dimension of trade policy, value chains and production networks, food security, trade and environmental sustainability, and commodity dependence; (c) analyses recent trends in international trade in goods and services and trade policy; (d) examines current issues related to the multilateral trading system and regional trade agreements (RTAs). On the eve of the expiry of the Millennium Development Goals-focused development agenda and a transition to a new development paradigm characterized by inclusive and sustainable development, the report reviews the contribution made by international trade.

II. Trade integration

2. The last two decades have been characterized by unprecedented trade integration. International trade in goods and services has grown dramatically from about US$5 trillion in 1994 to about US$24 trillion in 2014, notwithstanding the slump in the years of the great recession. World trade has been doubling every decade for the last four decades, facilitated, inter alia, by the reduction of trade costs, including tariff barriers (see figure 1). Developed countries continue to constitute the main players in international trade. However, developing countries account for an increasing share. By 2013, developing countries accounted for over 45 per cent of world trade. The trade integration process has brought many benefits to the world and has created enormous opportunities for economic development of many countries.

Figure 1
World merchandise exports
(US$ current millions)

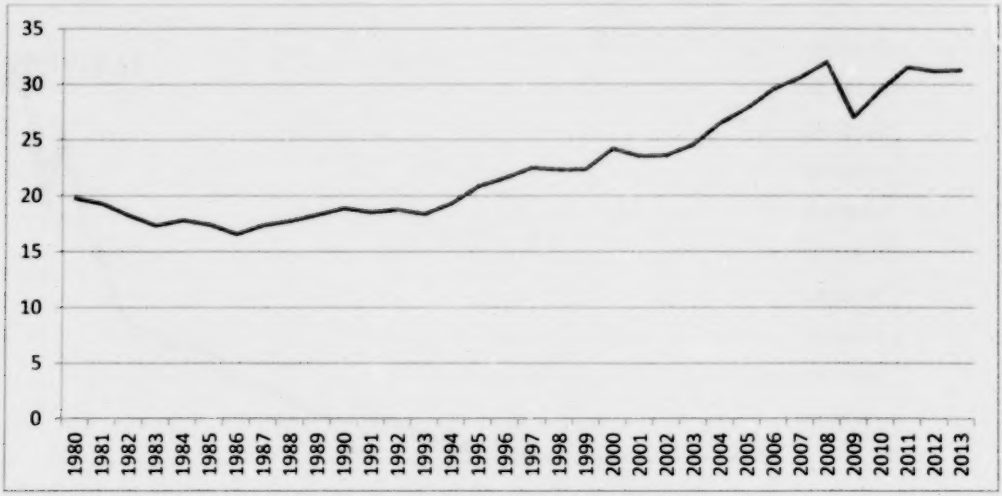


3. Trade can be a powerful enabler of economic growth, poverty reduction/eradication and sustainable development. This can be gleaned for example from the share of trade in goods and services in gross domestic product (GDP) globally which rose from under 20 per cent in 1980 to over 30 per cent by 2013 (see figure 2). Trade allows countries to share their unique comparative advantages in the production of goods and services for consumption in each other's markets. As such, it provides market opportunities for all nations. When these opportunities are seized, particularly by developing countries, they induce investment and technology transfer that strengthen trade's ability to create jobs and incomes, deepen economic diversification and advance structural transformation. Overtime, incomes in poorer countries rise and poverty and unemployment decline, thus providing impetus to advance the social objectives (for example, in the area of health and education). Development must be environmentally sustainable across all economic sectors, generating no net harm to, nor depletion of, ecosystems and natural resource bases (terrestrial, oceanic or atmospheric).

Figure 2

Share of trade in goods and services in gross domestic product, 1980–2013

(Per cent)

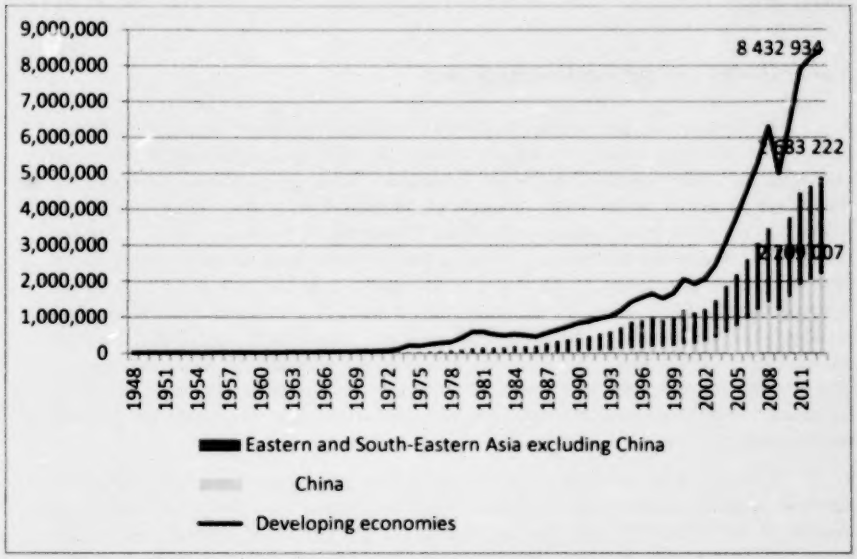


Source: UNCTAD.

4. Supported by dynamic trade growth, developing countries have on the whole witnessed much higher GDP growth rates than developed countries in the last four decades. Developing countries experienced annual average GDP growth rates of 5.7 per cent since 2000 as compared to an annual average of 1.6 per cent for developed countries. With such rates of growth it is taking fewer years to double output per capita, showing that developing countries are slowly catching up with developed countries in terms of GDP.

5. However, the benefits and opportunities of trade integration have not always been inclusive and have not always translated into sustainable economic, social and environmental well-being. The trade growth has been mainly in China and in East and South Asia (see figure 3). Least developed countries (LDCs) in particular (apart from some oil- and petroleum-exporting countries) remain less integrated into and marginalized from the global economy. Exports per capita are very low for African countries (less than US$200) as compared to other developing and developed countries. The export growth has also been uneven, with East Asian countries showing much faster growth of exports than other developing countries.

Figure 3
Growth in trade
(US$ thousands)



Source: UNCTAD.

III. International trade and inclusive and sustainable development

6. For the ultimate objective of inclusive and sustainable development, trade integration should not only foster economic growth but also address socioeconomic and developmental concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. The close linkage between trade, sustainable development and poverty alleviation will be a defining feature in the post-2015 development paradigm if trade is to have an impact on the sustainable development goals. Some of the critical areas in which more inclusive and sustainable approaches to international trade, trade policy and the trading system are required are discussed in this chapter.

A. Gender dimension of trade policy

7. Promoting the gender perspective is a sine qua non. It has been well established by UNCTAD that trade policy has different impacts on different segments of the population and affects men and women differently. In turn, gender-based inequalities can impact significantly on trade policy outcomes and trade performance. There are clearly identifiable structural constrains that should be addressed if women are to benefit from expanded trade and fully contribute to economic development. These include labour market segmentation and gender wage gaps; limited access to productive resources, training, credit, technology and market information; and time poverty. Gender is a key issue in the integrated treatment of trade, finance, investment, and technology. Gender-specific supply-side obstacles are multidimensional. They straddle across finance (gender-based inequalities in access to

credit), trade (gender biases in access to markets), and productive assets (investment). The acknowledgement and integration of the gender dimension in trade policy thus prompts the integrated treatment of trade, investment and finance for inclusive and sustainable development.

B. Value chains and production networks

8. The structure of international trade has dramatically changed during the last two decades. In the past, trade was largely about countries exchanging goods produced domestically. Today, trade increasingly concerns firms geographically fragmenting production processes under value chains and production networks. Value chains and production networks have become a dominant feature of the world economy, involving countries at all levels of development, from the poorest to the most advanced. About 60 per cent of global trade consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption.[1] The production of goods and services is increasingly carried out wherever the necessary skills and materials are available at competitive cost and quality. This growing fragmentation of production across borders has important implications for trade and investment patterns and policies, and offers new prospects for growth, development and jobs.

9. For smaller firms from developing countries, the participation in global production networks is instrumental in accessing technology and know-how, which will ultimately increase their productivity. Policies facilitating the integration of domestic firms into international production processes and promoting the adoption of foreign technology and know-how are, therefore, very important in translating trade into increases in productivity and ultimately economic development. The internationalization of production processes poses challenges to developing countries as their firms may often find themselves locked into low value added activities. Moving from low value to higher value activities requires a policy mix that favours upgrading in industrial processes and increasing export sophistication. Deliberate policy measures need to be taken to ensure a greater participation of women in such chains, and also the incorporation of energy efficient and climate friendly production processes.

C. Food Security

10. A major challenge is related to food security. World food demand is rapidly increasing with rising income levels and strong population growth. Although many countries have developed and could possibly further develop food security policies, including by subsidizing production of staple foods, such strategies may not always be possible (for example, because of geographical factors), economically viable or optimal (such policies may hinder diversification and structural transformation), or environmentally sustainable (they may imply the use of marginal land and deforestation). With very few exceptions, any food security strategy cannot be dissociated from international trade (see figure 4).

[1] From UNCTADStat, 2015.

Figure 4

Food security – agricultural dependency index based on net trade of agricultural products

Source: UNCTAD.

Note: Food dependence is estimated as a country's exports of agricultural products minus its imports of agricultural products. The resulting figure is then normalized by dividing it by the country's agricultural trade (imports plus exports). The index varies between -1 and 1, with positive values meaning that the country exports more agricultural products than it imports.

Disclaimer: The boundaries shown on this map do not imply official endorsement or acceptance by the United Nations.

11. In general, countries in Latin America, East Africa and South Asia tend to be net food exporters, while most remaining Asian and African countries are net food importers, and therefore rely on international markets for food security purposes. The UNCTAD food dependency index shows that since 2008, many African as well as Asian economies have experienced an increasing reliance on imported food products, for example, Bhutan, Botswana, Myanmar, the Niger and the Syrian Arab Republic (Bhutan and the Niger are both LDCs and landlocked). Given that world food demand is projected to increase by 20 per cent by 2030, international markets are likely to become even more important for food security.

12. In this context, there is a need to guarantee that agricultural markets are fair and, most importantly, predictable. As food availability and prices have real social and political effects, especially on the poor, minimizing uncertainty in food markets is crucial. In this regard, multilateral agreements should lock in open and reliable markets to ensure access to staple foods. There is also a need to increase investment into strengthening food production and, in line with sustainability requirements, increasing emphasis on sustainable agriculture, including organic agriculture food products, which deserve greater attention.

D. Energy and environmental sustainability

13. A sustainable and cleaner energy future is another major challenge, especially in meeting energy needs while at the same time reducing climate change. Economic and population growth leads to increased energy demand, and consequently increase in CO_2 emissions. Fossil-based energy sources continue to dominate the energy consumption of countries, with clean energy representing about 20 per cent of global consumption. Unless the problems of energy availability and climate change are resolved, the prosperity that all nations legitimately strive for will be compromised. By emphasizing the need for

environmental sustainability, the post-2015 development agenda and sustainable development goals are a recognition that neglecting to effectively manage pollution, waste and overconsumption of natural resources is no longer an option.

E. The green, blue and creative economies

14. Sustainable production (and consumption) processes will be a major policy theme influencing national, regional and international development strategies in the post-2015 sustainable development agenda. The production of goods and services for exports will increasingly need to take into account environmental sustainability, and new economic opportunities arising from production and exports of green goods and services will need to be developed. In this respect two areas of potential include the green and blue economies, with possible significant impact on livelihoods of rural farming and fishing communities.

15. In support of a greening of the global economy, countries could examine and develop opportunities at national and regional levels for reviewing, producing and trading in green exports. Interested countries can engage in country-driven and country-owned action plans with specific policy reforms to be effected, and actions to be undertaken, to seize opportunities in greening global markets. In Vanuatu, for example, UNCTAD is supporting a national green export review focusing on adding value to traditional exports including coconut, cocoa and sandalwood. Likewise in Ecuador, UNCTAD has supported the elaboration of national action plans to promote more sustainable production and exports of cocoa and value-added chocolate, as well as sustainable fisheries. Closely related are new opportunities for sustainably produced biodiversity-based products and services in a wide variety of sectors such as food, personal care, fashion, pharmaceuticals, sustainable tourism, and handicrafts, among others. The opportunities created through "biotrade" are a source of jobs, incomes, export diversification and rural development for populations, small and medium-sized enterprises and multinational corporations. Benefits to rural communities in terms of jobs, income earning opportunities and improved lifestyles can be substantial.

16. As regards the blue economy, oceans and seas cover over two thirds of the earth's surface, provide food and minerals, generate oxygen, absorb greenhouse gases and keep in check climate change, determine weather patterns and temperatures, and serve as highways for sea-borne international trade. The global ocean-based economy is estimated at between US$3 trillion and US$6 trillion per year. More than 3 billion people rely on the oceans for their livelihoods and more than 350 million jobs are linked to the ocean worldwide. Healthy, productive and resilient oceans and seas are essential in the quest for a more sustainable future, but face significant pressures and threats to their sustainability from climate change, over-exploitation and poor management of marine resources or pollution. Harnessing the ocean economy for development in a sustainable way will be a major challenge. There is a need to support developing countries in creating enabling national and regional policy and regulatory environments to promote the conservation and sustainable use of ocean-based resources, as well as in developing economic and trade strategies in using the "oceans space" to promote sustainable trade in ocean-based resources. These include resources such as fish and seafood, wave energy potential, algae bioenergy, marine bioprospecting and biotech, and maritime and coastal tourism.

17. A third area in which the production scope of countries can be enhanced is the creative economy and creative industries.[2] Many countries already recognize the importance of culture and the creative economy and support the elaboration of national

[2] See the *Creative Economy Report 2010*, UNCTAD and United Nations Development Programme, available at http://unctad.org/en/Docs/ditctab20103_en.pdf.

plans to stimulate it and reposition the creative industries as important vehicles for economic and social transformation. Policies targeting the creative economy respond not only to economic needs but also to the special needs of local communities related to education, cultural identity, social inclusiveness and the protection of local natural and environmental resource endowments and the integration of these into local, regional and international markets. Cultural and creative industries also improve the competitive advantage of countries by innovative products rooted in the country, reinforcing brand-building and country image. For example, China is moving forward its development strategy from "made in" to "created in" China. It is estimated by UNCTAD that the global market for trade in creative goods and services totalled a record US$547 billion in 2012, with about 69 per cent of this accounted for by design and new media and 31 per cent by publishing, visual arts, art crafts and performing arts.

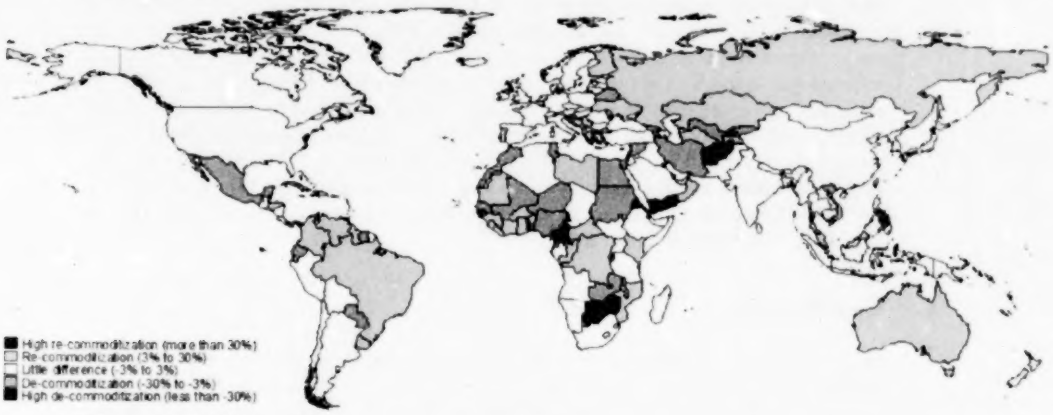
F. Commodities

18. Commodity dependence is a feature in many of the developing countries and LDCs, particularly in the African region. In recent times, most of the African and Latin American countries' export basket has changed towards commodities. However, it is evident that the almost decade-long commodity boom is coming to an end. This is coupled with a difficult situation in global financial markets, which have provided the impetus to this boom.

19. Global demand for intermediate, consumer and capital goods is predominantly met by developed countries' exports. Similarly, trade in both agriculture and manufacturing largely originates from developed countries. However, the importance of developed countries as suppliers of world markets in these categories of products is declining. On the other hand, developing countries remain by a wide margin the main suppliers in international markets for primary products and natural resources. Developing countries' exports represent about two thirds of international trade in primary products and about three quarters of that in natural resources. Since 2008, developing countries' export shares have increased in all categories except primary products and natural resources.

20. The degree of recommoditization is measured by comparing the share of commodities in total exports in two time periods. Negative values imply decommoditization, meaning that the export basket is less biased towards commodities, whereas positive values imply an even stronger tendency to export commodities. Figure 5 shows changes in commodities during the two periods 2008–2013 and 2011–2013.

Figure 5
Changes in commoditization, 2008–2013


High re-commoditization (more than 30%)
Re-commoditization (3% to 30%)
Little difference (-3% to 3%)
De-commoditization (-30% to -3%)
High de-commoditization (less than -30%)

Source: UNCTAD.

Note: The degree of commoditization is measured by comparing the share of commodities in total exports in two time periods. Negative values imply decommoditization, meaning that the export basket is less biased towards commodities, whereas positive values imply an even stronger tendency to export commodities (recommoditization).

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IV. Global economic and trade trends

A. Key economic trends

21. The world economy is growing in 2015 at rates slightly higher than during the three previous years. However, this improvement remains modest, unevenly distributed among different regions, and is vulnerable to financial shocks. World output is expected to expand at around 2.7 per cent in 2015 compared to an annual rate of 2.4 per cent between 2012 and 2014. This is mainly the result of a better economic performance in developed countries, which are expected to grow at around 2 per cent compared to 1.6 per cent in 2104; in particular, growth in Japan and the euro area is experiencing a moderate acceleration, although from very low rates.

22. Developing countries as a whole will continue to expand at a rate of close to 4.5 per cent, thanks in particular to growth resilience in most of the Asian region and, to a lesser extent, in sub-Saharan Africa. However, other regions are experiencing a significant slowdown, due to lower commodity prices and capital outflows that, in some countries, have prompted tighter macroeconomic policies. Latin America, West Asia and the transition economies are among the most affected; in the latter, recessionary conditions are already present.

23. The central problem of insufficient global demand that resulted from the global financial crisis has not yet been resolved. When the global crisis erupted in 2008, the collapse of aggregate demand in systemically important economies was so sharp that there was little room for an ambiguous policy response. Public spending sought to compensate for lower spending by households and firms, while monetary expansion addressed the tendency towards deflation, falling asset prices and balance sheet distress. However, there

was no concerted attempt to adopt concrete measures to tackle the rise in income inequality, in particular the deterioration of the labour share in total income, which had been falling in a majority of economies since the early 1980s.

24. In the absence of widespread and sustained increases in labour income, neither consumption nor investment regained sufficient strength in most of the countries affected directly by the crisis. As a result, in early 2015, most developed countries find themselves with private consumption levels below long-term projections, sluggish investment and weak public sector demand. Recent improvements in the economic activity in developed countries are due to a less stringent fiscal stance and some recovery in household consumption, following a reduction in energy prices and, in some countries (including the United States of America, the United Kingdom of Great Britain and Northern Ireland, and to a lesser extent Australia and Canada), a strong rebound of asset prices and related "real-balance effects".

25. Economic trends in developing economies followed a different pattern. In response to the initial shock in 2008–2009, some applied more ambitious counter-cyclical policies, including increased fiscal spending and income policies that were sustained for long enough to encourage a continuing rise of household expenditure and, by extension, of private investment. Some of these countries are scaling back or even reversing the policy stimulus as they face capital outflows or lower export prices; by contrast, for oil importers, the recent improvement in the terms of trade enlarges the room for manoeuvre.

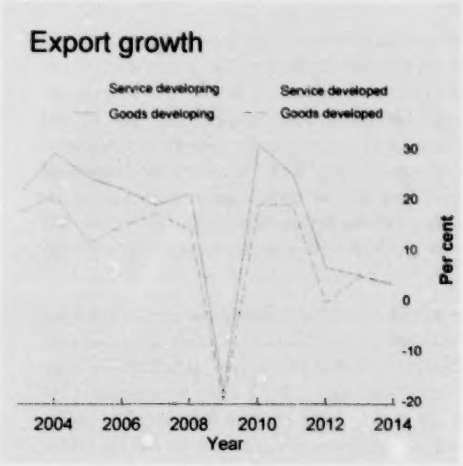
B. Overall trade trends

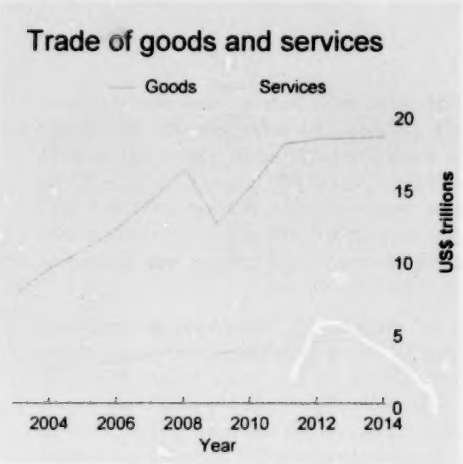
26. Although world trade recovered swiftly from the effects of the global economic crisis, it has grown only modestly since 2011. Following the strong rebound in 2010 and 2011, export growth rates have stabilized at lower levels (figure 6). From 2011 to 2013 world trade grew at a rate of about 2 per cent per year, notably below the growth rate of more than 5 per cent per year observed in the pre-crisis period. Between 2011 and 2014 world trade in goods and services increased by nearly US$1 trillion to reach around US$24 trillion in 2014 (with services accounting for about US$5 trillion), with developing countries accounting for about US$11 trillion of the world exports.[3]

27. While most international trade flows are now generally larger than their pre-crisis levels of 2008, the increase in world trade since 2011 has been relatively limited and almost exclusively driven by increases in import demand from the East Asian region. A concern with the low levels of trade growth since 2010 is that they reflect a weakening import demand in some developed countries and emerging markets. If this trend persists, coupled with declining commodity prices, it could disproportionally affect export-driven growth strategies in many developing countries.

[3] From UNCTADStat, 2015. Statistics for developing countries include transition economies.

Figure 6
Values and growth rates of world trade in goods and service

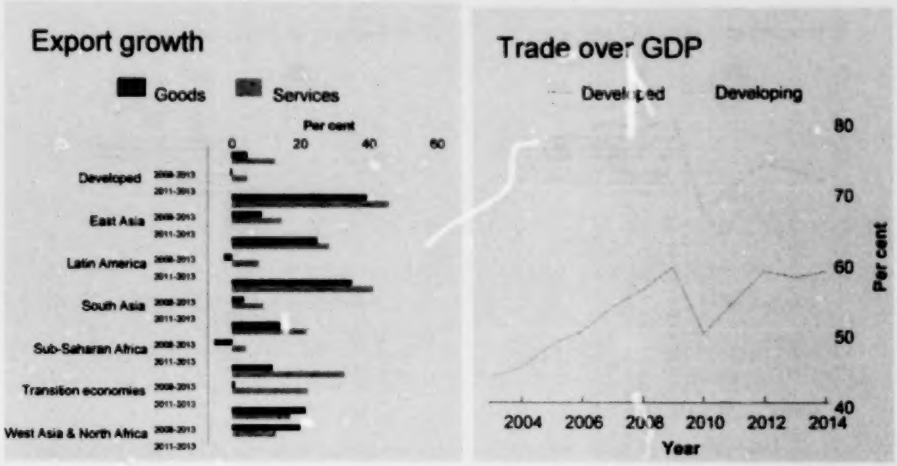




Source: UNCTAD (figures for 2014 are preliminary).

28. Since its earlier peak of 2008, international trade has continued to grow, at times substantially, but also quite diversely across regions (figure 7). While developed countries' trade has increased minimally, developing countries have generally fared much better. Among developing country regions, East Asian trade (both imports and exports) has grown by the greatest extent, with an increase of 40 per cent or more between 2008 and 2013. On the other hand, exports from sub-Saharan Africa only increased by about 15 per cent in the case of goods and 22 per cent in services over the same period. The recent increase in world trade has mainly been attributed to the strong rebound achieved between 2009 and 2011. Since 2011, international trade has grown notably less, even declining in a number of cases. For a large number of Latin American and African countries, exports have contracted. In particular, total exports from sub-Saharan Africa were about 5 per cent lower in 2013 than in 2011.

Figure 7
Growth of trade in goods and services, and value of trade

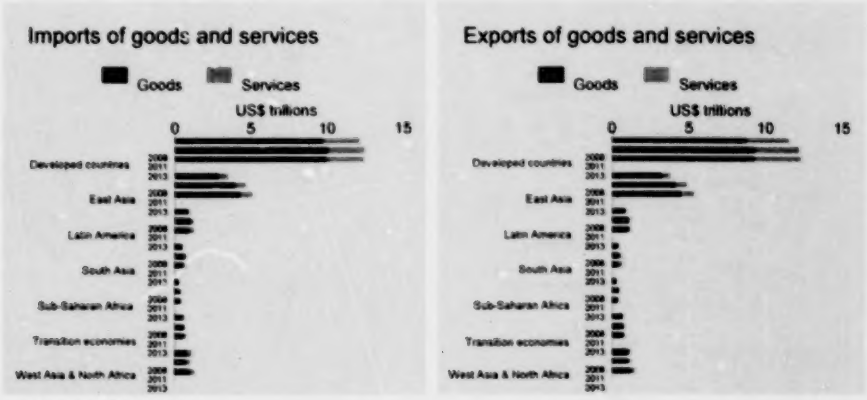


Source. UNCTAD.

29. In 2013, developed countries still remained the main players in international trade, accounting for about half of the value of world trade in goods and about two thirds of the value of trade in services. In 2013, developed countries' imports of goods reached about US$10 trillion, while that of services added up to US$2.5 trillion (figure 8). Total exports were of similar magnitude (figure 8). During the past few years developing countries have continued their integration into the world economy although at a typically slower pace and to a diverse extent. On the one hand, East Asian countries have continued to outperform many other developing countries in terms of export and import growth. In 2013, East Asia traded close to US$4.5 trillion in goods, and around US$800 billion in services. On the other hand, recent years have witnessed a decline in international trade for a number of Latin American and especially sub-Saharan African countries.

30. With regard to specific economic sectors, fuels (at about US$3 trillion in 2013) and chemicals (at about US$2 trillion) continue to represent the largest product categories in terms of the value of trade. Since 2011, trade flows in many commodity-related sectors have declined, while they have increased in manufacturing sectors such as motor vehicles, machineries and electronics. Trade in agricultural products has remained roughly stable. In the case of services, most sectors have continued to register significant rates of growth, with transportation, travel and business services reaching values of about US$1 trillion in 2013.

Figure 8
Values of trade in goods and services by region



Source: UNCTAD.

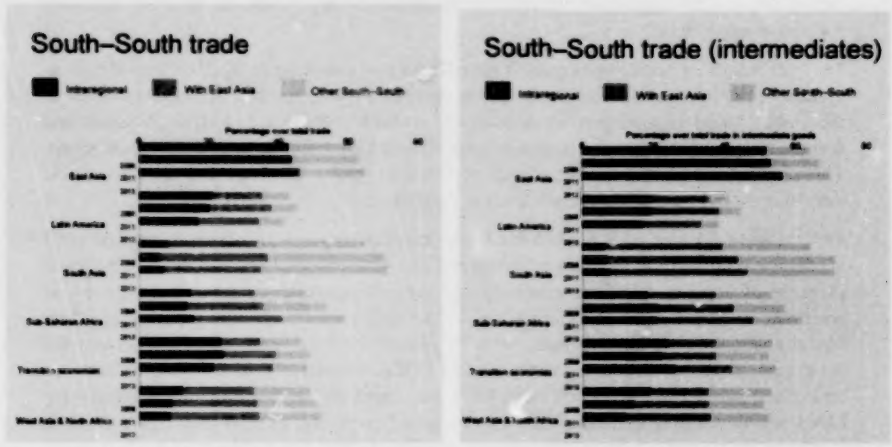
31. International demand and supply across categories of goods tend to be associated with a nation's level of development. With the exception of product categories pertaining to processing industries, world trade is still largely fuelled by demand in developed countries. In 2013, developed countries accounted for about 75 per cent of global imports of apparel (down from about 80 per cent in 2008) and for about two thirds of imports of a range of products including tanning, motor vehicles, food products, wood products and furniture, animal products, rubber and plastics, and paper products and publishing. Developing countries, on the other hand, were major importers of mining and metal ores, communication equipment, electrical machinery and several agricultural products. On the supply side, developed countries' share in world markets declined in almost all sectors, but remained dominant in some large sectors such as motor vehicles (75 per cent), chemicals (70 per cent) and various machinery (65 per cent). Sectors where international markets are largely supplied by developing countries include oil, gas and coal, apparel, communication equipment, textiles, office machinery, oils and fats, and tanning.

32. With regard to world trade in services, it continues to be largely dominated by developed countries both in terms of demand and supply, especially in sectors including computer and information services, financial services, royalties and licence fees, and communication services. Although the importance of developing countries as importers of services has increased in recent years, they nevertheless account for the largest share only for construction and transportation services. Turning to export market shares, these reveal that international markets are mainly supplied by developed countries (the single exception being construction services, where the market share is more or less equally divided). For instance, developed countries account for over 95 per cent of global exports of royalties and licence fees, and around 80 per cent of financial and insurance services.

33. Despite having greatly increased during the last decade, trade between developing countries (South–South) has also stagnated since 2011. South–South trade in goods for 2013 was valued at circa US$5 trillion, a magnitude close to that of trade between developed countries (North–North). This figure represents more than half of overall developing country trade (figure 9). This share varies by region, ranging from above 40 per cent in Latin America and transition economies, to almost 70 per cent in South Asia and East Asia. Although a proportion of South–South trade encompasses intraregional flows, the largest part involves trade with the East Asian region. Since 2008, East Asia has become an increasingly important trading partner for all other developing country regions.

The significant and growing relevance of East Asia in South–South trade is similarly evident when focusing on trade in intermediates (figure 9). This indicates the presence of production networks not only within East Asia, but also connecting East Asia with other developing countries.

Figure 9
Regional composition of South–South trade



Source: UNCTAD.

34. Trade between developed and developing countries (North–South and South–North) also increased substantially over the period, and represented a share of about 40 per cent of world trade in 2013, mainly comprising exports from developing nations towards the developed world. Intermediate products have represented the bulk of trade, except in the case of South–North flows. Primary products account for a sizeable share of South–South and South–North trade. Driven by demand in developed countries, consumer products represent an important share of North–North and South–North trade. Capital goods represent about 20 per cent of trade from developed to developing countries.

V. Trade policy and market access

Tariffs

35. During the last decade international trade has been characterized by a progressive shift in the use of trade policy instruments. While tariff protection remains an important instrument only in certain sectors and/or for a limited number of countries, the use of other, non-tariff trade restrictive measures has become more widespread.

36. As of 2013, around one third of world trade was free under most-favoured-nation (MFN) regimes, with an additional third exempt from tariffs due to preferential access. However, tariffs applied to the remainder of international trade can be relatively high. In 2013, trade subject to duties faced an average tariff of about 7 per cent in manufacturing and about 18 per cent in agriculture. In this regard, preferential access continues to play a key role for agricultural market access.

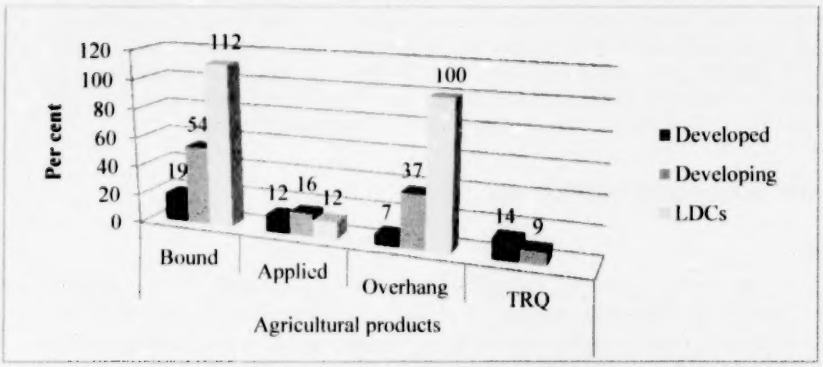
Agricultural trade and preferential trade agreements

37. Most the trade in agriculture happens under preferential trade arrangements. Only 20 per cent of international trade in agriculture happens under MFN tariffs, which are 18 per cent on average. It is worth noting, however, that in comparison with World Trade Organization (WTO) provisions, limited progress has been made in some of the RTAs with respect to several rule-making areas, including agricultural safeguards, export subsidies and export duties with significant absence of discipline or any measures affecting domestic support in agriculture.

38. It is still an open question as to how RTAs can complement the multilateral trading system or provide guidance towards appropriate solutions to the key outstanding issues in the Doha Round negotiations on agriculture – which include a reduction in tariffs and domestic support and the elimination of export subsidies – and beyond these negotiations. This may consequently limit the overall potential of RTAs for promoting convergent and development-oriented trade liberalization in agriculture.

39. Figure 10 compares final WTO bound tariff averages with currently applied tariff averages on agricultural products of developed and developing countries, and LDCs. While averages of applied tariffs are relatively not very different across these three groups of countries, at 12 per cent, 16 per cent and 12 per cent respectively, the gap between their bound average tariffs is quite high, with 19 per cent, 54 per cent and 112 per cent for developed countries, developing countries and LDCs, respectively. The difference between bound and applied average tariff (also known as overhang) is therefore much greater for LDCs and developing countries than for developed countries, as shown in figure 10. The overhang for these three groups of countries is, respectively, 100 per cent, 37 per cent and 7 per cent.

Figure 10
Average tariffs on agricultural products



Source: UNCTAD Trade Analysis and Information System/World Integrated Trade Solution database using latest available data.

Note: TRQ = tariff rate quota.

Non-tariff measures

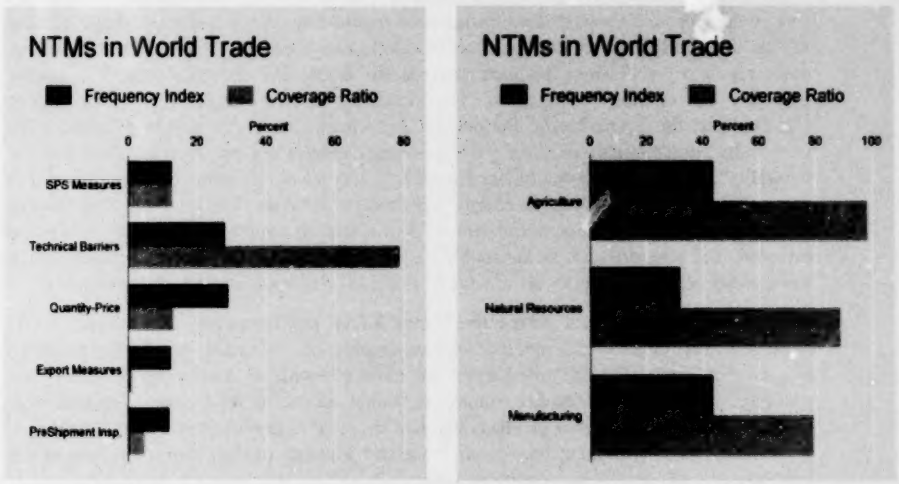
40. International trade is increasingly regulated and influenced by a wide array of policies and instruments reaching beyond tariffs. As of 2013, technical measures and requirements regulate about two thirds of world trade, while various forms of sanitary and phytosanitary measures are applied to almost the totality of agricultural trade. Non-technical measures such as quantity and price measures still affect almost 30 per cent of trade flows, often in economic sectors of importance for developing countries. The past few

years have also seen an increase in the use of trade defence measures within the WTO framework.

41. Data on non-tariff measures is still fragmentary and therefore does not allow computation of comparative statistics. The data may also not be fully representative of world trade. Nevertheless, some preliminary statistics may be derived from the available data. Figure 10 illustrates the distribution of non-tariff measures across five broad categories. For each category, both the frequency index (that is, the percentage of HS 6 digit lines covered)[4] and the coverage ratio (that is, the percentage of trade affected) are reported. International trade is highly regulated through the imposition of technical barriers, with more than 25 per cent of product lines and almost 80 per cent of world trade affected. Quantity and price control measures (which also include non-automatic licensing), as well as sanitary and phytosanitary measures still affect about 15 per cent of world trade, and cover over 25 per cent of lines for the former and around 15 per cent for the latter. Export measures and pre-shipment inspections are applied to international trade less frequently as their use is either specific to particular sectors or they are employed by a specific group of countries (for example, pre-shipment inspections in low-income countries). When considering the coverage of non-tariff measures by broad category (figure 10), one can observe that agriculture is the most affected, with nearly all of world trade and almost half of HS 6 digit lines covered. In the case of natural resources and manufacturing, non-tariff measures affect, respectively, almost 90 per cent and 80 per cent of their respective trade.

Figure 11

Prevalence of non-tariff measures, by type and broad category (2013)



Source: UNCTAD.

[4] The Harmonized System (HS) of the World Customs Organization uses code numbers to define products. A code with a low number of digits defines broad categories of products; additional digits indicate subdivisions into more detailed definitions. Six-digit codes are the most detailed definitions that are used as standard. Countries can add more digits for their own coding to subdivide the definitions further according to their own needs. Products defined at the most detailed level are "tariff lines".

VI. Regional trade agreements

42. The greater prominence of twenty-first century RTAs, particularly emerging "mega" RTAs, characterizes the recent configuration of the international trading system. Mega RTAs – such as the Trans-Pacific Partnership Agreement and the Transatlantic Trade and Investment Partnership Agreement – are qualitatively different from previous RTAs in their size, depth and systemic consequences. They are oriented towards a deeper and comprehensive integration with a strong regulatory focus to provide a viable platform for regional value chains by ensuring a duty-free and non-tariff-barrier-free trading environment through deep regulatory integration to make regulatory systems more compatible and transparent. In addition to full market opening, they now encompass a range of behind-the-border regulatory measures, including investment, competition policy, capital movement, intellectual property rights and government procurement. By inducing deeper liberalization and high-standard, cutting-edge regulatory harmonization covering an increasing share of world trade, these RTAs run the risk of further affecting incentives to negotiate MFN liberalization at the global level even though some issues of systemic relevance, most notably domestic agricultural support, continue to be negotiated at the multilateral level.

43. The focus of the emerging mega RTAs will likely be increasingly towards regulatory harmonization to reduce divergence in national standards affecting trade. Regulatory harmonization and mutual recognition could remove barriers arising from diverse technical standards on goods and services. Some new proposed disciplines under mega RTAs include regulatory coherence. For a third country adopting lower standards, this could represent upward harmonization of regional standards and might have adverse effects in exporting in regional markets in developing countries. While trade facilitating, some regulatory provisions are seen to constrain developing countries' ability to pursue proactive development strategies. For instance, recent mega RTA negotiations (for example, the Trans-Pacific Partnership Agreement) have also sought to address the potentially anticompetitive effect of state-owned enterprises by ensuring "competitive neutrality"; however, such enterprises continue to play a key role in developing countries in some strategic sectors such as in energy and financial services. The investor–State dispute settlement, increasingly incorporated in RTAs, is seen to confer greater rights to foreign investors and may prove to be amenable to "regulatory chill" as regulators might refrain from taking certain regulatory actions for fear of legal challenge under such settlements.

44. From a development perspective, mega RTAs, and the twenty-first century RTAs more generally, might represent a risk for weaker and more vulnerable developing countries as they may simply be left out. Larger and more competitive developing countries face challenges in effectively securing improved market access, as RTAs often preserve high tariffs on imports of sensitive products that had attracted high protection on an MFN basis. In contrast, ensuring an adequate content, pace and sequence of their own liberalization is a key concern of developing countries, especially given the stronger behind-the-border regulatory "WTO+" or "WTO-X" disciplines increasingly incorporated in RTAs. It is therefore important that market opening objectives are critically balanced with the flexibility to design and implement measures to build essential productive capacities and move up in the value ladder.

45. At the same time, many South–South regional economic and monetary cooperation arrangements are being introduced and/or strengthened to deepen trade and economic cooperation among member developing countries in support of growth and development. In Africa for example, the establishment of the Tripartite Free Trade Area in 2015, and following this the launching the African Continental Free Trade Area by 2017, under the

aegis of the African Union, are both expected to generate substantial trade and economic benefits. The creation of the Brazil, Russian Federation, India, China and South Africa (BRICS) Development Bank, and recently that of the Asian Infrastructure Bank, herald a new form of financial cooperation among mainly emerging economies to provide financing for, inter alia, infrastructure development, which has been a major constraint on economic growth and development in developing countries.

VII. Developments in the multilateral trading system

46. Following the ninth WTO Ministerial Conference in Bali in December 2013, WTO members had until 31 July 2014 to adopt a protocol to amend the Marrakesh Agreement Establishing the World Trade Organization to incorporate the Trade Facilitation Agreement (TFA) on a definitive basis. However, this did not materialize owing to the concern expressed by some developing countries regarding the implications of the "early harvest" of the TFA for the remaining Doha negotiating agenda. This stalemate was unblocked by the General Council's decisions of 27 November 2014, which cleared the path for the TFA to become operational, for the negotiations aimed at a permanent solution on food security issues to start in earnest, and to launch a process to develop "a clearly defined work programme" by July 2015. As of May 2015, five countries have completed ratification of the TFA and some 60 countries notified their "category A" commitments. It was significant that the Trade Facilitation Facility became operational to support developing countries, particularly LDCs, in their implementation of the TFA. The tenth WTO Ministerial Conference, scheduled for 15–18 December 2015 in Nairobi, is expected to provide further guidance on the way forward, including by adopting some of the deliverables.

47. The current negotiating efforts focus on developing a post-Bali work programme by July 2015 on the remaining issues of the Doha Round. Ongoing discussions have underlined key principles: (a) the need for a balanced approach to agriculture, non-agricultural market access (NAMA) and services, addressing all core market access issues in a simultaneous (not a sequential) manner; (b) the centrality of the development dimension, particularly LDC issues; (c) the need to focus on "doables". At the time of writing in June, this work has yet to produce a concrete outcome. For instance, progress in core market access issues continues to be conditioned by the progress in agriculture. Views also differ on whether or not to use the draft modality texts on agriculture and NAMA of 2008 as the basis. Some newly proposed approaches, such as the use of the request-and-offer approach instead of the Swiss formula in NAMA, have not found consensus. In the areas of services, following the submission of a collective request by LDCs, a high-level meeting was held in February 2015 at which developed countries and some developing countries indicated areas where they intend to provide preferential treatment to LDCs.

48. One of the key challenges facing countries is to find a way to better adapt negotiating approaches to changing economic and policy environments since 2008. For instance, higher commodity prices and national agricultural policy reform processes have led to a substantial reduction in the use of trade-distorting support and export subsidies in traditional subsidizing countries. The shape of the post-Bali work programme is also likely to be influenced by parallel plurilateral and regional processes. The negotiations on expanding the product coverage of the WTO Information Technology Agreement aim at reaching an early agreement, also to be presented and agreed upon during the tenth Ministerial Conference. Fourteen countries representing 86 per cent of global environmental goods trade have launched since 2014 plurilateral negotiations for an environmental goods agreement. The negotiations for a trade in services agreement involving 23 WTO members representing 70 per cent of global services trade aim at comprehensive and ambitious services liberalization.

VIII. Conclusions

49. International trade and the trading system have witnessed a significant transformation towards fragmented production processes, multipolarization and regionalization, with integration into the global economy proceeding at different speeds for different countries. Trade continues to play a major role in development and should be firmly anchored in the post-2015 development agenda as a major enabler of inclusive and sustainable development.

50. The expected broad-based contribution of trade to various post-2015 sustainable development goals would necessitate active policies supporting a positive interface between trade and related public policies to support gender empowerment, poverty alleviation, job creation and environmental sustainability. The evolving national policy needs and priorities would call for an enabling environment internationally, assuring a fair and open trading environment and providing space for countries to implement such policies, so that trade can flourish and development dividends can be equitably shared among and within countries.

51. At the international level, multilateral cooperation should be pursued and scaled up. Reinvigorating the multilateral trading system as a global public good with renewed impetus, credibility and relevance is required in order to address the twenty-first century development challenges of inclusive and sustainable development being faced by the poorest and most vulnerable countries. Coherence should also be reinforced between multilateral and regional agreements, so that these arrangements in their totality can be turned into an effective enabling environment for development.

52. The imperative of responding to the need to protect and preserve the environment – terrestrial, oceanic and atmospheric – and sustainably use it in support of economic growth and inclusive development necessitates a re-examination and reorientation of trade and economic policies to more environment-friendly and climate-resilient production and consumption patterns. The greening of international production and trade patterns should occur as a major priority in the post-2015 development period.

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Report on UNCTAD assistance to the Palestinian people

Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory*

Note by the UNCTAD secretariat**

Executive summary

In 2014, the economy of the Occupied Palestinian Territory witnessed the first recession since 2006 and the second consecutive decline in gross domestic product (GDP) per capita. In addition, the number of Israeli settlers has quadrupled since the Oslo Accords in 1993 and 1995; presently they outnumber Palestinians in Area C, which represents 61 per cent of West Bank area. During the first four months of 2015, Israel once again withheld Palestinian clearance revenue, which represents 75 per cent of total revenue. The ensuing liquidity crisis slowed economic activities and will weigh down GDP growth in 2015. The Gaza Strip endured the third conflict with full-scale military operation in six years, coming on top of eight years of economic blockade. Reconstruction efforts are extremely slow relative to the magnitude of devastation, and Gaza's local economy did not have a chance to recover. Socioeconomic conditions are at their lowest point since 1967.

Despite limited resources, UNCTAD delivered technical cooperation, training and advisory services to the Palestinian public and private sectors, and successfully completed a project on developing Palestinian trade facilitation capacity. UNCTAD's efforts were acknowledged by the General Assembly of the United Nations in resolution 69/20.

* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

** This report should not be quoted by the press before 1 September 2015.

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I. Mobility restrictions, blockade, settlers' violence and economic volatility and contraction

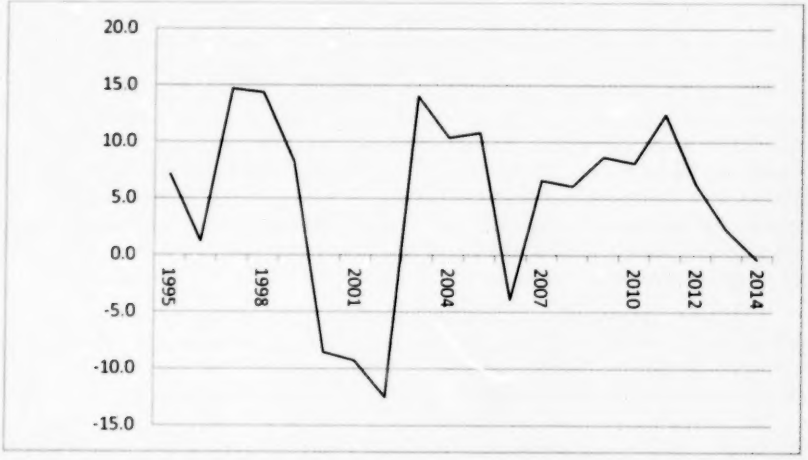
1. Hopes for sustainable development to begin in the Occupied Palestinian Territory sustained another setback in 2014 and early 2015. The Israeli military operation in the Gaza Strip, which took place during the conflict in July and August 2014, sent the Palestinian economy into its first recession since 2006.[1] Given 5 per cent GDP growth in the West Bank and a drop of 15 per cent in Gaza's GDP, the economy of the Occupied Palestinian Territory contracted by 0.4 per cent in 2014 and GDP per capita further shrank by 3.3 per cent in 2014. The prospects for 2015 are bleak, due to volatile political conditions, reduced aid flows, the slow pace of reconstruction in Gaza and lingering effects of Israel's withholding of Palestinian clearance revenue during the first four months of 2015 (World Bank, 2015).

2. As shown in figure 1, real GDP growth has been extremely unstable and determined by political events and donor support, which have been both unpredictable and outside the control of the Palestinian National Authority. The dominance of politics over Palestinian economic development is highlighted by the fact that the period of relative stability in 1995–1999 witnessed the most robust economic performance, while all episodes of economic contraction (2000–2002, 2006 and 2014) were preceded by political and military confrontations.

Figure 1

Growth rate of real gross domestic product

(Percentage)



3. The Palestinian economy is the economy of an occupied territory, and therefore – contrary to the claims of some observers – the efficacy of donor support has been undermined by occupation, not by the inadequacy of Palestinian National Authority policies or poor donor coordination. The fiscal burden of the humanitarian crises and the occupation-related fiscal losses have diverted donor aid from development to humanitarian interventions and budget support. No amount of aid would have been sufficient to put any economy on a path of sustainable development under conditions of frequent military strikes

[1] In the third quarter of 2014 alone, during the conflict, Gaza's GDP declined by 32 per cent.

and destruction of infrastructure, isolation from global markets, fragmentation of domestic markets and confiscation and denial of access to national natural resources.

Table 1

Economy of the Occupied Palestinian Territory: Key indicators[a]

	1995	*1999*	*2002*	*2006*	*2009*	*2012*	*2013**	*2014**
Macroeconomic performance								
Real gross domestic product growth (percentage)	7.1	8.3	-12.5	-3.9	8.7	6.3	2.2	-0.4
Gross domestic product, nominal (millions of dollars)	3 283	4 271	3 556	4 910	7 268	11 279	12 476	12 766
Gross national income, nominal (millions of dollars)	3 723	5 025	3 775	5 333	7 800	12 137	13 636	14 147
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	6 624	9 941	13 887	14 825	16 862
Gross domestic product per capita, nominal (dollars)	1 427	1 553	1 182	1 449	1 963	2 787	2 992	2 973
Gross national income per capita, nominal (dollars)	1 618	1 827	1 255	1 573	2 107	2 999	3 271	3 295
Real gross domestic product per capita growth (percentage)	-0.2	4.8	-15.0	-6.8	5.6	3.1	-0.8	-3.3
Real gross national income per capita growth (percentage)	0.5	4.7	-16.1	-5.4	3.2	3.6	0.5	-2.4
Population and labour								
Population (millions)[a]	2.34	2.96	3.23	3.61	3.94	4.29	4.42	4.55
Unemployment (percentage)[b]	32.6	21.7	41.2	29.8	30.1	26.7	27.0	29.8
Total employment (thousands)	417	588	452	636	718	858	885	917
In public sector	51	103	125	148	181	195	204	210
In Israel and settlements	68	135	42	55	73	83	99	107
Fiscal balance (percentage of gross domestic product)								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	22.0	18.4	18.5	21.5
Current expenditure (commitment basis)	15.0	22.1	28.0	46.4	43.9	31.4	29.6	31.9
Total expenditure (cash basis)	25.1	29.3	34.2	52.1	46.3	28.9	27.4	28.2
Overall balance (cash basis)	-12.1	-5.9	-26.0	-27.1	-24.4	-10.5	-8.9	-6.7
External trade								
Net current transfers (millions of dollars)	400	373	1 051	1 291	2 141	1 750	1 189	2 715
Exports of goods and services (millions of dollars)	562	752	478	736	1 133	1 871	2 072	2 298
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	3 683	4 943	6 300	6 804	7 781
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-2 947	-3 810	-4 429	-4 732	-5 483
Trade balance (percentage of gross domestic product)	-57.2	-61.2	-49.4	-60.0	-52.4	-39.3	-37.9	-43.0
Trade balance with Israel (millions of dollars)	-922	-1'598	-886	-1 887	-2 558	-3 302	-3 115	-2 514
Trade balance with Israel (percentage of gross domestic product)	-28.1	-37.4	-24.9	-38.4	-35.2	-29.3	-25.0	-19.7
Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage)[c]	83.5	67.5	56.9	64.4	65.1	63.5	59.7	49.2
Palestinian National Authority trade with Israel/total Israeli trade (percentage)[c]	4.2	3.7	1.8	2.2	2.9	2.8	2.9	2.6

Sources: Israel Central Bureau of Statistics, Palestinian Central Bureau of Statistics and Palestinian Ministry of Finance.

* Preliminary estimates. In 2014, the Palestinian Central Bureau of Statistics revised all national accounts data going back to 1995.

[a] Except for the population figures, all data exclude East Jerusalem, due to the fact that the Palestinian Central Bureau of Statistics has no access to the city.

[b] This follows the relaxed International Labour Organization definition of unemployment, which includes discouraged workers.

[c] Palestinian and Israeli trade data refer to goods and non-factor and factor services.

4. As indicated in table 1, in 2014, unemployment increased by 3 percentage points to 30 per cent: 44 per cent in Gaza (the highest level on record) and 18 per cent in the West Bank. However, the real depth of unemployment and the attendant waste of human resources are greater than that indicated by unemployment rates, due to the prevalence of underemployment and masked unemployment.

5. The contraction of the Palestinian per capita GDP by 3.3 per cent and the extremely high unemployment rates subject large sections of the Palestinian population to poverty and food insecurity. Before the military operation in Gaza and the economic contraction in 2014, food insecurity in the Occupied Palestinian Territory was already very high, with one in three households food insecure, according to 2013 data. Conditions were worse in Gaza, where nearly 6 in 10 households were food insecure compared to 1 in 5 households in the West Bank (Palestinian Central Bureau of Statistics et al., 2014).

6. Israeli settlements in the West Bank continued to expand, and the number of settlers has quadrupled since the Oslo Accords. Today, settlers outnumber Palestinians in Area C (61 per cent of West Bank area), which includes the most valuable Palestinian natural resources. Overall, 341,000 Israeli settlers live in 235 settlements and outposts in Area C, compared to 300,000 Palestinians (United Nations, Office for the Coordination of Humanitarian Affairs (OCHA), 2014a). Settlers' violence against Palestinians and their productive assets continued, with 9,333 productive trees destroyed or vandalized in 2014. The violence escalated in 2015; in January alone, another 5,600 trees across the West Bank were uprooted or vandalized (OCHA, 2015).

7. Towards the end of 2014, the movement of Palestinian people and goods in the West Bank was hindered by 490 barriers installed by Israel, including checkpoints, roadblocks, trenches and the Separation Barrier, which runs into the Occupied Palestinian Territory and unilaterally redefines the borders away from the internationally recognized Green Line (OCHA, 2014b). Gaza remained under a blockade that isolates it from the world and its traditional markets in the West Bank and Israel, which absorbed some 85 per cent of its exports before the blockade.

8. The high costs and unpredictability fostered by multiple constraints on movement subvert the actual and potential investment of exports-oriented firms and exacerbate the dependence of the Occupied Palestinian Territory on imports. In 2014, imports jumped from 55 to 61 per cent of GDP, but exports failed to keep pace and the trade deficit widened from 38 to 43 per cent of GDP. Isolation from global markets forced the Occupied Palestinian Territory into overwhelming dependence on unbalanced trade with Israel. In 2014, the Palestinian trade deficit with Israel was more than $2.5 billion, or 93 per cent of net current transfers (table 1).

A. Frequent withholding of Palestinian clearance revenue worsens fragile fiscal conditions

9. Despite the adverse conditions, the Palestinian National Authority continued its fiscal reforms and was able to increase revenue and reduce the fiscal deficit from 12.6 per cent of GDP in 2013 to 11.9 per cent in 2014. This was made possible by a 20 per cent rise in clearance revenue (customs, value added tax and petroleum excise). However, the Israeli military operation in Gaza in 2014 forced the Authority to double transfers to Gaza in July and increase spending on medical transfers to care for the injured (World Bank, 2014a). Donor support was not sufficient to cover the $1.6 billion budget deficit, leaving the Authority to accumulate an additional $497 million in arrears.

10. The International Monetary Fund (IMF) projects that recent destruction in Gaza will increase the fiscal deficit by an additional 3 per cent of GDP (IMF, 2015). Unless donors

increase aid to the Palestinian National Authority in 2015 and beyond, socioeconomic conditions in the Occupied Palestinian Territory will become more dire, jeopardizing not only the institutional achievements of the Palestinian National Authority, but the Authority itself, with unpredictable political consequences.

11. Clearance revenue is the largest source of Palestinian public revenue; at $2.1 billion in 2014, it accounted for 75 per cent of total revenue. It could cover the Palestinian National Authority's public wage bill or 50 per cent of its current expenditure. However, according to the present revenue clearance mechanism, established by the Protocol on Economic Relations, signed in Paris in 1994, Israel collects taxes on Palestinian imports on behalf of the Palestinian National Authority and then transfers them to the Authority after levying 3 per cent collection and processing fees. Effectively, this has left the Palestinian National Authority exposed not only to the actual withholding of revenue by Israel, but also to a continuous threat of withholding.

12. The importance of clearance revenue is reinforced by the fact that it is received on a monthly basis, making it a stability valve that mitigates the impact of the unpredictability and irregularity of donor aid disbursements. In recent years, the declining trend in donor aid and the Palestinian National Authority's reliance on clearance revenue has heightened Palestinian vulnerability to unilateral suspension of clearance revenue transfers by Israel.

13. Clearance revenue in the first quarter of 2015 increased by 4.2 per cent due to an increase in customs and petroleum excise revenue. However, the potential benefits of greater revenue were pre-empted as Israel suspended clearance revenue transfers to the Palestinian National Authority following application by the State of Palestine for membership in the International Criminal Court. This suspension deprived the Authority of about $164 million per month from the end of December 2014 to April 2015 (Palestinian Ministry of Finance, 2015). The four-month suspension of revenue transfers aggravated the Authority's already tenuous fiscal situation and resulted in a GDP slowdown, which will most likely lead to weakened growth performance in 2015.

14. The withholding of revenue clearance forced the Palestinian National Authority to resort to domestic borrowing, accumulating arrears to the private sector and paying public employees only 60 per cent of their salaries. This reduced aggregate demand through the withdrawal of 50 per cent of the Authority's expenditure from the economy, including the 40 per cent reduction in income for the 215,000 public employees.

15. The episode of revenue withholding in early 2015 elevated the already high exposure of the domestic banking system to the Palestinian National Authority and its employees, who account for 23 per cent of total employment. Moreover, its impact will not be confined to the short term but will linger into the future, with negative implications for GDP growth, investment, employment, public debt and stability of the banking system. The suspension of revenue transfers will also weaken the Authority's future fiscal position via reduced growth prospects and accumulation of interest payment obligations.

16. Israel released clearance revenue at the end of April 2015, but the fiscal and economic damage had already been done. Furthermore, before the release of revenue, in addition to the 3 per cent processing fee, Israel deducted 20 per cent from the accumulated clearance revenue against Palestinian imports of water and electricity and medical bills owed by Palestinians. Israel's original intention had been to deduct 40 per cent, but the Palestinian National Authority disputed the bill for electricity imports from the Israel Electric Corporation, on the grounds that Palestinians had no access to 230 electricity transmission points (to the Occupied Palestinian Territory) and hence the amount of electricity actually imported from Israel could not be measured or verified. Israel's deductions from Palestinian clearance revenue are unilaterally made on a regular

basis. However, the process lacks the transparency required for verification by the Palestinian side, as discussed below.

17. The latest withholding of clearance revenue was not an isolated incident. Previous episodes of revenue withholding by Israel include the following:

(a) November 2012, for four months (following recognition of Palestine as a non-member observer State by the General Assembly)

(b) May 2011, for one month (following Palestinian national reconciliation efforts)

(c) March 2006, for 1.5 years (following Palestinian legislative elections)

(d) October 2000, for two years (following the start of the second Intifada)

(e) August 1997, for two months (following deterioration in the political and security conditions)

18. The accumulated periods of the six episodes of revenue withholding total four years and one month, during which about $3 billion was withheld (for (b) and (c) see Kock and Qassis, 2011).

19. The deleterious macroeconomic impact of fiscal volatility is well established in the literature. For instance, one study indicates that increased fiscal policy uncertainty has a detrimental impact on investment, consumption, inflation and overall economic activity (Fernandez-Villaverde et al., 2013). The study also finds that the negative impact of fiscal volatility is especially high and may induce stagflation when the monetary space is thin and cannot be used to offset contractionary fiscal shocks. This is the situation in the Occupied Palestinian Territory.

B. Electricity importation: Another source of Palestinian fiscal leakage

20. The Oslo Accords set limits for the Palestinian production and importation of energy and the Palestinian energy sector is therefore highly dependent on energy imports from Israel. The Israel Electric Corporation supplies 88 per cent of electricity consumption in the Occupied Palestinian Territory and 95 per cent of electricity consumption in the West Bank. In 2013, it supplied 63 per cent of Gaza's electricity, while the Gaza power plant and Egypt supplied 29 and 8 per cent, respectively. In 2013, the Occupied Palestinian Territory imported electricity from Israel at the cost of $660 million.

21. Importing electricity from Israel is another source of loss of Palestinian fiscal resources and consumer welfare. When Palestinian electricity distributors (municipalities, village councils and distribution companies) fail to pay the Israel Electric Corporation, Israel deducts from the Palestinian National Authority's clearance revenue and registers any remaining balances as debt owed to the Corporation, to be deducted from clearance revenue at later dates. Such deductions also cover sewage fees and water imports, and are referred to as net lending. They are deducted by Israel without the consent of or verification by the Authority, in a unilateral, non-transparent and unpredictable manner (World Bank, 2014b). Between 2010 and 2013, net lending accounted for 11 per cent of clearance revenue.

22. The Israel Electric Corporation issues monthly invoices to Palestinian distributors, to be paid within 11 days. Any delay in payment leads to 10 per cent annual late fees, although Palestinian distributors do not receive invoices in a timely or regular manner and lack access to meters located in Area C in the West Bank and in Gaza near the border with Israel. This makes them unable to compile relevant information and does not allow them to collect the cost of consumption from end users within the period specified by the Corporation. The late payment penalties plus added interest charges unilaterally set by

Israel are excessive as they exceed market interest rates. Furthermore, the Corporation charges Palestinians a price that includes non-applicable components, such as the renewable energy component, which should not be borne by Palestinian importers (World Bank, 2014b).

23. As indicated above, Israel imposes fines and high interest rates on the Palestinian National Authority even for short-term delays in Palestinian payments for electricity, water and sewage bills, yet Israel does not pay interest on money it does not transfer to the Authority when withholding Palestinian clearance revenue, which is in the range of hundreds of millions of dollars. Periods of withholding extend to months and sometimes years.

24. More than two decades since the Oslo Accords, approval from Israel's Civil Administration continues to be required prior to the installation of new, or enhancement of capacity of existing, electricity connection points in the Occupied Palestinian Territory. Over the past decade, the Palestinian National Authority has been attempting to negotiate a new agreement with Israel related to Palestinian electricity importation, especially with regard to the payment conditions and price, which increased by 33 per cent between 2010 and 2013. However, similar to other areas in the Oslo Accords left for further negotiation, no progress has been achieved to date.

II. De-development and impoverishment of the Gaza Strip

25. Three Israeli military operations in the past six years, in addition to eight years of economic blockade, have ravaged the already debilitated infrastructure of Gaza, shattered its productive base, left no time for meaningful reconstruction or economic recovery and impoverished the Palestinian population in Gaza, rendering their economic well-being worse than the level of two decades previous. The most recent military operation compounded already dire socioeconomic conditions and accelerated de-development in the Occupied Palestinian Territory, a process by which development is not merely hindered but reversed.

26. Prior to the military operations, the blockade had already led to the large-scale cessation of productive operations and loss of employment. It inflicted large-scale destruction on Gaza's local economy, productive assets and infrastructure, and affected numerous industrial, agricultural, commercial and residential facilities either directly or indirectly through debilitated infrastructure and acute shortages of inputs, water, electricity and fuel.

27. Since the blockade initiated in 2007, exports from Gaza have been almost completely banned, imports and transfers of cash severely restricted and the flow of all but the most basic humanitarian goods suspended. The most recent military operation, in 2014, impacted an already paralyzed economy at a time when socioeconomic conditions were at their lowest since 1967. This operation therefore had a more severe impact on socioeconomic conditions compared to the previous two military operations in 2008 and 2012.

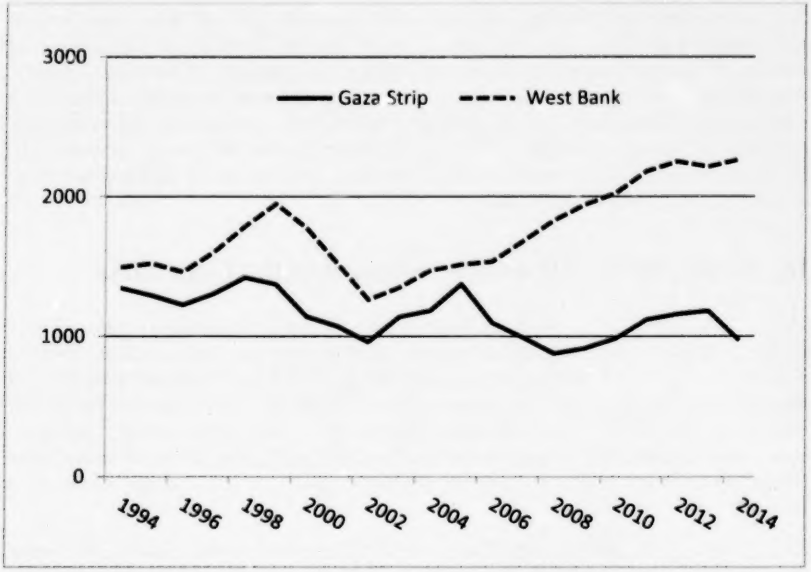
28. The recurrent military operations and economic siege have rendered Palestinians in Gaza more impoverished than they were before the Oslo Accords, and also compared to Palestinians in the West Bank, who are subject to significant but comparatively less destruction. While per capita GDP in Gaza today is at 72 per cent of the level in 1994, it is two thirds that of the level in the West Bank. As shown in figure 2, the gap between Gaza and the West Bank has widened since 2007, when mobility restrictions to and from Gaza were tightened by the blockade.

29. Unemployment trends in Gaza mirror trends in the GDP. In 2014, unemployment reached 44 per cent, the highest level on record. Unemployment among young women refugees[2] in Gaza is severe; statistics indicate that more than 8 out of 10 women in that demographic group are out of work. The ramifications of persistently high unemployment rates on the standard of living and Gaza's human capital will be long-lasting, as lost skills and human capital are difficult to replace and prolonged spells of unemployment deskill workers and render their education and training obsolete.

Figure 2

Real gross domestic product per capita in the Gaza Strip and the West Bank

(Constant 2004 dollars)



30. The latest military operation has effectively eliminated what was left of the middle class, sending almost all of the population into destitution and dependence on international humanitarian aid. With the destruction of the economy and its capacity to create jobs, food insecurity now affects 72 per cent of households (Office of the Quartet Representative (OQR), 2014). Consequently, the majority of the population is forced into dependency on humanitarian aid to meet basic needs. The number of Palestinian refugees solely reliant on food distribution from the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) increased from 72,000 in 2000 to 868,000 by May 2015, representing half the population of Gaza and 65 per cent of the registered refugees (UNRWA, 2015b).

A. Repeated military confrontations aggravate dire socioeconomic conditions in the Gaza Strip

31. Gaza and the West Bank have been under various mobility restrictions since their occupation in 1967. However, following the start of the second intifada in September 2000,

[2] Refugees account for 72 per cent of the population of Gaza.

mobility and other restrictions were tightened and economic conditions further deteriorated. In Gaza, economic conditions worsened after the Israeli disengagement from Gaza in August and September 2005, due to continued control by Israel of Gaza's airspace, maritime space and land crossings. Another turning point took place in 2007, when restrictions were raised to a blockade that isolated Gaza's exporters, importers, producers and consumers from the rest of the world.

32. In addition to the blockade, in a span of six years, Gaza endured three consecutive military operations: the first from 27 December 2008 to 18 January 2009, the second between 14 and 21 November 2012 and the third for 50 days from 7 July to 26 August 2014.

33. The United Nations Special Coordinator for the Middle East Peace Process, during a visit to Gaza in April 2015, summarized the extent of the destruction by stating that "no human being who visits can remain untouched by the terrible devastation that one sees here in Gaza" and as shocking as the devastation of the buildings might be, "the devastation of peoples' livelihoods is 10 times more shocking" (see http://www.un.org/apps/news/story.asp?NewsID=50738#.VZO3j4WIS1d). In October 2014, during a visit to Gaza, the Secretary-General of the United Nations stated the destruction was "beyond description" (see http://www.un.org/apps/news/story.asp?NewsID=49074#.VZO36YWIS1d).[3]

34. To date, no complete inventory of the economic effects and/or damage in Gaza during the latest military operation has been compiled, yet it has undoubtedly had a far more catastrophic impact on the population, infrastructure and productive base, compared to the previous two. Entire neighbourhoods were affected and almost one third of Gaza's population was displaced. According to OCHA and UNRWA, over 500,000 Palestinians were displaced during the operation, with some 100,000 continuing to be displaced by mid-2015.

35. OQR compiled a partial list of damages incurred by Gaza during the 2014 operation, which have significant economic and social effects, and reported the following (OQR, 2014):

(a) 18,000 housing units destroyed or severely damaged and 44,300 units damaged

(b) 26 schools destroyed and 122 damaged

(c) 15 hospitals and 45 primary health centres damaged

(d) Gaza's sole power plant affected by damage and lack of fuel and widespread damage to electricity lines

(e) 20–30 per cent of the water and sewage network damaged

(f) Water desalination plant in Deir al-Balah damaged

(g) Total damage to the agricultural sector at $550 million

(h) 220 agricultural wells destroyed or badly damaged

[3] Following this visit, in November 2014, the Secretary-General convened a board of inquiry to review and investigate 10 incidents affecting United Nations personnel, premises and operations in the Gaza Strip during the latest operation. The Secretary-General stated that it was "a matter of the utmost gravity that those who looked to [United Nations premises] for protection and who sought and were granted shelter there had their hopes and trust denied" and deplored "the fact that at least 44 Palestinians were killed as a result of Israeli actions and at least 227 injured at United Nations premises being used as emergency shelters" (S/2015/286).

(i) At least 40,000 people employed in the agricultural sector affected through damage to agricultural lands and the loss and/or death of productive animals

(j) 247 factories and 300 commercial establishments fully or partially destroyed

(k) Damages to Gaza Industrial Estate estimated at $5 million

(l) Widespread damage to landline, mobile and Internet infrastructure, including destruction of switches, fixed-line networks, cellular stations, networks, cables and the headquarters of companies

(m) Loss of existing contracts and partially approved future contracts of information and communications technology (ICT)-related businesses and software outsourcing centres

(n) A number of tourist sites destroyed or damaged, including sites being considered for application for World Heritage status from the United Nations Educational, Scientific and Cultural Organization

36. Another partial list of damages was compiled by the Palestinian Economic Council for Development and Reconstruction; estimated costs reflect only direct losses at present market value and do not include indirect losses or the loss of future income streams that could have been generated by damaged productive assets (Palestinian Economic Council for Development and Reconstruction, 2014). As shown in table 2, between 2012 and 2014, over 64,000 residential units and at least 1,000 industrial and commercial establishments were destroyed or damaged. The value (not cost of replacement) of assets in Gaza damaged as a result of the last two military operations is estimated at more than $2.7 billion. This is nearly equal to what could be produced by Gaza's economy in an entire year (93 per cent of Gaza's GDP in 2014).

Table 2

Estimated direct damage caused by military operations in Gaza, 2012 and 2014

(Costs in millions of dollars)

Type of damaged facility	*November 2012*		*July 2014*		*Total*	
(totally or partially damaged)	*Number*	*Cost*	*Number*	*Cost*	*Number*	*Cost*
Residential structures	8 298	73	56 000	1 304	64 298	1 377
Government, educational, religious and other structures	58	158	293	144	351	302
Infrastructure, roads, power station and utilities	-	74	-	119	-	193
Industrial and commercial establishments	-	213	1 000	360	1 000	573
Agricultural land and other related assets	-	120	-	138	-	258
Other losses	-	-	-	15	-	15
Total costs		638		2 080		2 718

37. Destroyed or damaged assets are not the only direct costs. Another source is the loss of GDP due to the interruption of production during military operations. The World Bank estimates that the 50-day interruption of productive activities in 2014 reduced Gaza's GDP by $460 million (World Bank, 2015). Adding the GDP loss to the costs of destruction as shown in table 2 gives a direct cost for the last two military operations of $3.2 billion. However, this is a minimal estimate that does not include indirect costs that arise from lost or degraded human capital, the economic multiplier effect and backward and forward linkages and future income streams from destroyed or damaged productive assets.

38. With regard to the military operation in December 2008–January 2009, UNCTAD estimates the direct economic losses at about $2.5 billion, or 160 per cent of Gaza's GDP in 2008 (UNCTAD, 2009). The total of the damages of the three military operations from 2008 to 2014 gives an amount of direct losses nearly equal to what could be produced

in three years by the 1.8 million Palestinians living in Gaza. However, the total cost may be substantially higher if indirect losses and lost future income streams are included.

39. The above discussion reveals that the magnitude, speed and complexity of the destruction make accurate assessment of the costs of damages and other occupation-related measures difficult. However, such an assessment is needed to identify the resource requirement for rehabilitation, reconstruction and reconstitution of the lost Palestinian productive base. In this respect, paragraph 31 (m) of the Doha Mandate requests UNCTAD to "continue to assess the economic development prospects of the Occupied Palestinian Territory and examine obstacles to trade and development". In addition, paragraph 9 of General Assembly resolution 69/20, adopted on 25 November 2014, requests UNCTAD to "report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people".

B. Long-lasting human capital and economic impact

40. Three years before the military operation in 2014, the United Nations conducted a study to forecast Gaza's living conditions in 2020. The study stressed that Gaza's population would increase from 1.6 million in 2011 to 2.1 million in 2020, and concluded that for Gaza to be a liveable place in 2020 "herculean efforts" needed to be accelerated in such sectors as health, education, energy, water and sanitation (United Nations, 2012). However, instead of such efforts, the tragedy in Gaza has deteriorated and its de-development was accelerated by destruction in 2014.

41. During the last six years, Gaza has endured severe human losses, with three military operations claiming the lives of at least 3,782 Palestinians and 95 Israelis.[4] According to OCHA and UNRWA, in 2014, Gaza witnessed the highest civilian death toll since 1967. By May 2015, 20 per cent of Gaza's population, or 360,000 people, needed treatment for mental health conditions, and there is already a serious shortages of such services. With regard to children, Gaza's future human capital, 521 lost their lives, and about 1,000 were injured and 400,000 are in need of immediate psychosocial support (OCHA, 2014c, and Save the Children, 2015).

42. Gaza's health facilities were not spared. During the most recent military operation, 17 hospitals and 56 primary health care centres were either destroyed or partially damaged. This includes one hospital, five primary health care centres and 45 ambulance vehicles that were completely destroyed and five hospitals and five primary health care centres that incurred severe damages (United Nations, 2014). Moreover, the destruction resulted in 2.5 million tons of debris, with the distinct possibility that the material used in building the destroyed property included harmful substances that endanger public and environmental health (World Health Organization (WHO), 2014). The destruction of vital health infrastructure will have long-lasting effects on Gaza's present and future human capital.

43. Similar to the decline of the health sector, Gaza's educational infrastructure experienced significant deterioration before 2014. The school system suffers from acute shortages of classrooms and more than 85 per cent of schools operate on a double shift basis. In the face of a severe housing crisis and the need for the construction of tens of thousands of housing units, as well as hundreds of new schools, the blockade continues to

[4] According to OCHA and the Israeli non-governmental organization B'Tselem, 79 of the 95 Israeli casualties in the three conflicts were from the security forces (see OCHA, 2014c, www.btselem.org/download/20090909_cast_lead_fatalities_eng.pdf and www.btselem.org/press_releases/20130509_pillar_of_defense_report).

create an artificial scarcity of construction materials. This renders new construction projects either impossible or overly expensive to the impoverished population. The social, health and security-related ramifications of the high population density and overcrowding are among the factors that may render Gaza unliveable by 2020, if present trends continue (United Nations, 2012).

C. Deepening crises related to water, energy, infrastructure and the environment

44. Large scale investment in water, electricity and sanitation infrastructure was needed even before the damage inflicted by the military operation in 2014. The operation resulted in severe damage on Gaza's water and sanitation infrastructure, including water wells and networks, tanks, desalination units, wastewater networks and pump stations. The preliminary static value of the damage is estimated by the Palestinian Water Authority at more than $34 million. However, long-term repair of the accumulated damage and decay of the water and sanitation infrastructure will require $620 million.

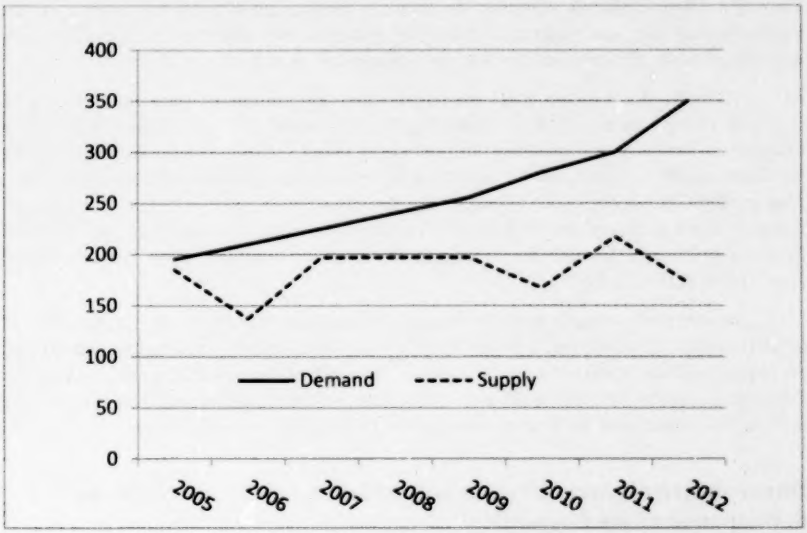
45. Gaza faces a severe water crisis. Gaza relies almost completely on a coastal aquifer as the sole source of freshwater. However, 95 per cent of the aquifer's water is not safe for drinking without treatment (Palestinian Water Authority, 2014). Years of over-abstraction have taken a heavy toll on Gaza's present and future water resources. Annual abstraction of water from the aquifer has been well above the recharge rate by over 100 million cubic meters, almost twice the sustainable rate. Consequently, groundwater levels have declined, seawater from the Mediterranean has infiltrated and salinity levels have increased, making the water unsafe for drinking according to WHO standards (World Bank, 2009).

46. The over-abstraction and scarcity of drinking water have been exacerbated by crumbling sanitation infrastructure, while the blockade creates chronic shortages of electricity and fuel, which in turn aggravate contamination and the water crisis. Untreated wastewater is often dumped into the sea and ultimately finds its way into the coastal aquifer. About 33 million cubic meters of untreated or partially treated wastewater are dumped every year in the Mediterranean. The damage of contamination and over-abstraction is such that the aquifer may be unusable by 2016 and, if unaddressed, the damage may be irreversible by 2020 (UNRWA, 2015a).

47. As early as 2009, the United Nations Environment Programme (UNEP) emphasized that prolonged over-abstraction and pollution jeopardized the sustainability of Gaza's aquifer unless it was rested (UNEP, 2009). The best suggested solution is to cease abstraction and install a monitoring system to continuously assess recovery. Once the aquifer recovers, sustainable abstraction may be resumed at carefully calculated levels. In the meantime, alternative solutions to the water crisis should be introduced, such as desalination, water importation, reduction of the loss of water in the distribution network, wastewater treatment and repairing of the sewage network.

48. Supply of electricity in Gaza has been persistently well below demand, even prior to the military operation in 2014, which damaged Gaza's single power generation station. Frequent cuts have undermined the economic activities of the private sector and affected residential homes, hospitals, schools and wastewater treatment plants. As shown in figure 3, twice the supply of electricity was needed to meet demand in Gaza in 2012.

Figure 3
Supply and demand for electricity in the Gaza Strip
(In megawatts)



49. The electricity and energy crisis is exacerbated by the fact that occupation does not allow Palestinians to develop and use the offshore natural gas fields discovered since the 1990s on the Mediterranean coast (Palestinian Economic Council for Development and Reconstruction, 2014). Two high-quality gas fields have been discovered; one entirely within the waters of Gaza and the other on the border with Israel. Natural gas from these fields could provide badly needed energy to the entire Occupied Palestinian Territory.

50. With the population expected to increase from 1.8 million to 2.1 million in five years, the water-related, electricity-related, infrastructural and environmental crises in Gaza can only deepen unless the blockade is lifted to allow importation of the equipment and spare parts necessary for rebuilding infrastructure. Lifting the blockade would help end the inefficient use of water in the agricultural sector and environmental degradation, by facilitating the resurgence of normal economic activities capable of generating large-scale employment opportunities in all sectors of the economy.

D. The Gaza Strip: The tunnel economy is another problem and not a solution

51. To mitigate the impact of the blockade on Gaza, a tunnel economy evolved and peaked between 2007 and 2013, with more than 1,532 underground tunnels running under the 12 km border between Gaza and Egypt. While the tunnels prevented the complete collapse of Gaza's economy, they were unsustainable, informal, uncontrolled and unregulated by governments on either side of the border. They were closed by mid-2013.

52. Tunnels should never have been perceived as substitutes for the fundamental human right of the Palestinian people to enjoy free and normal access to global markets that other peoples and countries take for granted. The tunnels were yet another mechanism to respond to the economic blockade of Gaza. Gaza requires a lifting of this blockade, not an unregulated underground economy.

53. However, it is illustrative to gauge the economic importance of the tunnels to highlight the urgent need for immediate lifting of the blockade. Between 2007 and 2013, the tunnels allowed for the importation of a wide range of essential consumer goods. They also allowed Gaza's producers to partially circumvent Israel's restrictions on the importation of fuel, gas, cement, construction materials, raw materials, pesticides, seeds, agricultural tools, preservatives, packaging material and spare parts.

54. The size of the tunnel trade was greater than the volume of trade through official channels (World Bank, 2014a). According to the United Nations Human Settlements Programme, based on the materials allowed in by Israel, it would have taken 80 years to rebuild the 6,000 housing units destroyed during the military operation in December 2008 – January 2009. However, imports through the tunnels were so significant that they reduced the time frame to five years (Pelham, 2011). Similarly, Gaza's power plant ran on diesel from Egypt brought through the tunnels in the range of 1 million litres per day before June 2013 (OCHA, 2013).[5]

55. Nevertheless, tunnels could not supply Gaza with the level and composition of imports needed for rebuilding a productive economy and, equally importantly, tunnels had no impact on Gaza's export sector. Therefore, the end of the tunnel economy makes the complete and immediate lifting of Israel's blockade on Gaza more urgent than ever if Gaza is to have a chance to avoid further damages and develop into a liveable place.

E. Donor support is necessary but not sufficient for the recovery and development of the Gaza Strip

56. Following the ceasefire in August 2014, Gaza's reconstruction has been slow due to the continued blockade and inadequate flow of donor support. By May 2015, not a single destroyed home had been rebuilt and no progress had been achieved in the reconstruction and repair of the destroyed infrastructure, factories, houses, hospitals and schools (UNRWA, 2015b).

57. The Palestinian National Authority drafted a *National Early Recovery and Reconstruction Plan*, in which the cost of relief, recovery and reconstruction was estimated at $4 billion, equivalent to 137 per cent of Gaza's GDP and 146 per cent of the Authority's total revenue in 2014, and thus evidently far beyond the capacity of the Authority.

58. At the Cairo Conference on Palestine – Reconstructing Gaza, held in October 2014, donors pledged $5 billion to the Occupied Palestinian Territory, of which $3.5 billion was pledged for Gaza. Eight months on, by mid-May 2015, only 27 per cent of the sums pledged had actually been disbursed (World Bank, 2015). Of the $3.5 billion in pledges for Gaza, only $2.5 billion was for new pledges. The latter represents only 63 per cent of the cost of reconstruction and therefore falls short of the funds needed to return Gaza to the situation before the military operation, when socioeconomic conditions were at their lowest point since 1967. Additional pledges, with timely fulfilment and disbursement, are critical for the reconstruction of Gaza. It should also be stressed that the scope and rationale for the funds required for Gaza's relief, reconstruction and recovery must be based on the fact that

[5] According to OCHA, the subsidized diesel imported from Egypt through the tunnels cost one third of the price of diesel imported from Israel. This suggests that the million litres of diesel per day from Egypt was, in effect, undeclared Egyptian support to the Palestinian people of about $440 million a year. However, the total implicit Egyptian support was much higher, as other products imported from Egypt into Gaza were also subsidized, including pharmaceuticals, flour and construction materials.

the devastation in Gaza is not only the result of the latest military operation but rooted in a prolonged occupation and blockade and the recurrent destruction of infrastructure.

59. The Palestinian people need to secure their human right to development under international law far more than they need donor aid. They are a well-educated and creative people who are more than capable of self-sufficiency if allowed to produce and trade normally with the rest of the world. However, self-sufficiency in Gaza is impossible under conditions of blockade and periodic destruction of infrastructure and private assets. While donor aid is important for extending a lifeline to the beleaguered people of Gaza, aid should not be viewed as a substitute for ending the blockade and calling on Israel to fulfil its obligations under international law.

60. If the current blockade and insufficient levels of donor support persist, even with a reversion to the status quo that prevailed before the latest military operation, Gaza will become economically unviable and the already grim socioeconomic conditions can only deteriorate. The likely outcome will be more conflict, mass poverty, high unemployment, shortages of electricity and drinking water, inadequate health care and a collapsing infrastructure. In short, Gaza will be unliveable, as emphasized by the United Nations (2012).

61. To the extent possible, relief should be embedded in a development plan aimed at achieving pro-poor, sustainable recovery. In addition, reconstruction efforts should prioritize rebuilding infrastructure and productive assets, with special attention accorded to employment-intensive projects that have the potential for high value added and strong forward and backward linkages.

62. A modest start to relieve Gaza of the prolonged economic blockade is operationalization of the Agreement on Movement and Access signed by Israel and the Palestinian National Authority in 2005. The Agreement requires Israel to facilitate the movement of goods and people from, to and within Gaza, and entails reconnecting Gaza with the West Bank, construction of Gaza's seaport and commencement of discussion for the construction of an airport. A Palestinian State cannot be economically viable without reintegration of the West Bank, including East Jerusalem, with Gaza, with the latter acting as the seaport of a future Palestinian State.

63. To end the Palestinian energy dependence on Israel, the Palestinian National Authority should be allowed to develop and use natural gas in Gaza's offshore fields, not only to improve the Authority's revenue and reduce aid dependence, but more importantly to operate power plants in Gaza and the West Bank.

III. UNCTAD assistance to the Palestinian people

A. Framework and objectives

64. In 2014, UNCTAD assistance to the Palestinian people continued, guided by paragraph 31 (m) of the Doha Mandate, paragraph 44 of the Accra Accord and paragraph 35 of the Sao Paulo Consensus, and in line with the United Nations Strategic Framework for 2014–2015. The programme addresses the constraints to and evolving needs of the economy of the Occupied Palestinian Territory through four clusters:

(a) Trade policies and strategies

(b) Trade facilitation and logistics

(c) Finance and development

(d) Enterprise, investment and competition policy

65. UNCTAD has been supporting the Palestinian people through research, the provision of advisory services, building international consensus on the needs of the Palestinian economy and implementing technical cooperation projects.

B. Operational activities under way

66. In 2014, UNCTAD continued to implement a project on developing Palestinian trade facilitation capacity. The project used a two-pronged approach to consolidate and strengthen the institutional capacity of the Palestinian Shippers' Council and increase the private and public sector's awareness of best practices in trade facilitation. The three newly established organizational units (technical, legal and training) in the Council enhanced the capacities of beneficiaries and resulted in a more efficient Palestinian trade facilitation supply chain. In addition, under the project, eight workshops were held on the following: import regulations for food industries; using the smart card system; gender mainstreaming in the business of the Council; role of women in international trade; import regulations for the ICT sector; import regulations for chemicals; interpretation and applications of the eighth version of the International Commercial Terms (2010); and training in legal services.

67. UNCTAD organized study tours to international and regional ports in Greece, Jordan, Spain and the former Yugoslav Republic of Macedonia to introduce members and professional staff of the Palestinian Shippers' Council to international standards and best practices in trade facilitation. UNCTAD also supervised the Palestinian Shippers' Council in the production of reference papers on the Agreement on Trade Facilitation of the World Trade Organization, on smuggling and on building the trade facilitation capacity of the private sector. Finally, the Council forged new partnerships with a number of national and international organizations.

68. The training programme established under the project generated new job opportunities, particularly for a number of youth, who became certified trainers upon completing a train the trainers course. Project implementation in 2014 also included the convening of the first international trade facilitation conference in the Occupied Palestinian Territory, with the participation of national and international experts. The conference, opened by the Prime Minister of the State of Palestine, addressed pertinent trade facilitation issues.

69. UNCTAD continued to work closely with the United Nations Country Team and contribute to the finalization and implementation of the United Nations Development Assistance Framework for the Occupied Palestinian Territory, as well as contributing to reports by the United Nations and other agencies, including reports and notes of the Secretary-General on socioeconomic conditions in the Occupied Palestinian Territory.

70. As in previous years, UNCTAD, in collaboration with the United Nations Division for Palestinian Rights, trained a young Palestinian diplomat. This training introduced the diplomat to the United Nations system in Geneva, Switzerland, covering the scope of the work of UNCTAD, including the annual session of the Trade and Development Board, and the work of other United Nations agencies and offices in Geneva.

71. The role of UNCTAD as the United Nations focal point for Palestinian trade and development issues was acknowledged and reinforced by General Assembly resolution 69/20, which requests UNCTAD to "report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people".

C. Coordination, harmonization and resource mobilization

72. In 2014, UNCTAD continued to achieve tangible progress in its assistance to the Palestinian people, in coordination with the Palestinian National Authority, Palestinian civil society, the United Nations and other international agencies and the donor community.

73. However, the need for additional resources to deliver technical cooperation support has become more urgent in 2014–2015. There is a risk of losing one of three professional posts in the Assistance to the Palestinian People Unit due to the lack of extrabudgetary resources. This loss would undermine the ability of the programme to deliver on its mandate. In addition, vital projects in the areas of customs modernization, investment promotion and small and medium-sized enterprise development remain without funding. Finally, fulfilment of General Assembly resolution 69/20 will require significant additional regular budget and extrabudgetary resources. Securing such resources is necessary to respond to the complex needs of the Palestinian economy and to mitigate the impact of occupation through the development of institutional capacities and sound policymaking and the provision of research and advisory services.

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Economic development in Africa: Unlocking the potential of Africa's services trade for growth and development

Overview

Executive summary

Africa finds itself at an important crossroads in terms of defining and shaping its transformational agenda. The services sector can and must form part of this process, given the role it plays in Africa's economy. The *Economic Development in Africa Report 2015* examines some of the major policy issues that underlie the continent's services sector and provides policy guidance on how services could contribute to regional integration in Africa and generate inclusive growth and employment. It analyses Africa's services sectors' regulatory and institutional frameworks, liberalization and growth at the regional level, and how services trade agreements and regulations (for example, the General Agreement on Trade in Services and a continental free trade area) interface with the domestic regulation of services.

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Introduction

1. Africa's services sector holds tremendous economic promise. It contributes to almost half of the continent's output, and a number of African countries have emerged as services-oriented economies. Indeed, growth in services has been vibrant in Africa, at more than twice the average rate for the world during 2009–2012. The sector's performance has undoubtedly contributed to Africa's growth trajectory of the past decade.

2. The services economy in Africa is a vital source of income and employment. In some countries, as much as two thirds of the workforce is engaged in services. Overall, the services sector in Africa accounted for one third of formal employment during 2009–2012. If the informal sector were included, the relevance of services would be even greater. Furthermore, as Africa's middle class continues to grow, and given current population and urbanization trends (Africa's population is forecast to double by 2025), this sector is expected to expand.

3. Equally important is the sector's contribution to Africa's trade. African services exports and imports totalled $271 billion in 2012. Though Africa is a marginal player in global services trade, with an export share of only 2.2 per cent, the services sector represents an important source of export revenue that should be further exploited if Africa is to assume a role as a global player in services trade.

4. Services also have a vital role to play in the context of Africa's development strategy, whether it is based on the exploitation of its natural resource base[1] or on labour-intensive light industry and manufacturing.[2] For either approach to succeed, exploiting the services potential of Africa will be critical to sustainable development. Indeed, as the most dominant sector in many African economies, services need to support the process of structural transformation, characterized by a shift from low- to high-productivity activities, and a declining share of agriculture in output and employment, as well as an increasing share of manufacturing and modern services in output. There are some dynamic emerging subsectors within the services sector with the potential to generate growth, trade and employment opportunities, which have yet to be tapped. For instance, logistics and distribution could greatly benefit Africa's agriculture (including agribusiness and food trade) and manufacturing sectors. Therefore, African policymakers need to place greater emphasis on how to move towards the provision of more sophisticated services where there is greater value addition and which offer opportunities for technology transfer and linkage development with other sectors of the economy.

5. Some services sectors are also considered to be the backbone of economic activity and have a bearing on social development. In particular, infrastructure services – encompassing transport, telecommunications, water, energy and financial services – are of critical importance to economic development and could contribute to addressing Africa's physical infrastructure deficit, inclusive growth and better social welfare. Infrastructure services also provide and support basic services (i.e. electricity, gas and potable water), which will be critical to the achievement of future post-2015 sustainable development goals. Lastly, infrastructure services are essential to the development of other service

[1] African Development Bank, Organization for Economic Cooperation and Development, United Nations Development Programme, Economic Commission for Africa, 2013, *African Economic Outlook 2013: Structural Transformation and Natural Resources* (Organization for Economic Cooperation and Development (OECD), Paris).

[2] AE Harrison, JY Lin and LC Xu, 2014, Explaining Africa's (dis)advantage, *World Development*, 63(C): 59–77; JY Lin and D Rosenblatt, 2012, Shifting patterns of economic growth and rethinking development, Policy Research Working Paper Series No. 6040 (World Bank).

sectors, including tourism, distribution (wholesale, retail), information and communications technology services, and business process outsourcing services. For infrastructure services to contribute successfully to the economic and social development of Africa, the institutional and regulatory environment must be supportive.

6. The continent is already tapping into some of the opportunities the services sector has to offer. For example, some African economies have been developing their services industries with relative success and are supplying services across Africa. Known examples of emerging regional services are the financial and banking services industries of Mauritius and Nigeria, the commercial and cargo air transport industry in Ethiopia and South Africa, the educational services industries of Ghana and Uganda, the telecommunications services of Egypt and the port services industries of Djibouti and Kenya.

7. Major challenges persist, however, especially as Africa seeks to move away from consumption-based growth to more durable sources of growth. The continent will need to shift away from relying on subsistence and non-tradable services to services which generate greater value addition and growth. A key policy question is, therefore, how Africa can translate services-led growth into durable employment and greater value addition for its development. Africa is showing immense potential in some of the services subsectors that contribute to trade in goods and, through these subsectors, the continent has an opportunity to link to global value chains. Equally, some countries have managed to develop their services beyond national confines and are supplying these services to other African countries.

8. In this context, the focus of this overview is to present the major regulatory and policy constraints that frustrate the development of Africa's services trade and how services can help Africa to integrate more beneficially into the world economy and generate growth and development that are sustainable and more inclusive. The following section recapitulates some of the main findings, key messages and policy recommendations emanating from the *Economic Development in Africa Report 2015*.

I. Main findings

A. Rapid rate of growth in Africa's services sector

9. Africa's rapid growth rate in services is comparable to that of the developing world and has a great potential to drive overall growth in the future. During 2009–2012 the services sector in Africa grew at a rate of 4.6 per cent, compared to 5.4 per cent in the developing world. The fastest growing services subsectors were transport, storage and communications, which are important for Africa's economic development. Broader economic growth and increased export revenue in the past decade, largely due to the commodity boom drove these encouraging trends. Regional trade in services has also increased tremendously especially along the three main lines of finance, telecommunications and retail.

10. Many African countries have undergone a process of shifting from agriculture to mainly non-tradable services, without going through a process of manufacturing development marked by significant productivity improvements, formal job creation, exports of sophisticated goods and the application of technology to the wider economy. From the period 2001–2004 to the period 2009–2012, of the 45 countries where the share of services in output rose, 30 experienced a contraction in manufacturing. This suggests that the complementarities between the two sectors are yet to be fully developed in some countries.

11. Weighted real gross domestic product (GDP) growth rates were calculated for each African country, and the contribution of the services sector to real growth was assessed. This exercise confirmed the importance of services acting as a cushion for the national economy at times of global economic shocks. For the period from 2009 to 2012, the services sector was the most significant driver of economic growth in 30 out of 54 African countries, accounting for more than 50 per cent of real economic growth. It accounted for more than 70 per cent of total real economic growth in 12 countries, of which 7 had services accounting for more than 50 per cent of their GDP.

12. The share of services in Africa's real output rose from 45.8 per cent to 49.0 per cent from the period 2001–2004 to the period 2009–2012. Within the categories of exports specializations, the shares of services in real output was highest among manufactures exporters (which consist of Lesotho and Tunisia) at 61.7 per cent, followed by services exporters at 57.0 per cent, and was lowest for fuel exporters at 33.9 per cent.

B. Rising services sector employment in Africa

13. The services sector accounted for 32.4 per cent of total employment in Africa as compared to 56.5 per cent in agriculture and 11.0 per cent in industry during 2009–2012.[3] Since 2001, the services share of employment has risen steadily while those of manufacturing and agriculture have stagnated. However, countries that are services-oriented do not necessarily source a large share of their formal employment from the services sector. In some countries where the services sector contributed more than 40 per cent to GDP over the period 2009–2012 (e.g. Ethiopia, Mozambique, Rwanda and Zambia), the services sector accounted for less than 20 per cent of total employment. This may be due to the nature of the services sector in these economies and the consequent labour intensity. For the services sector to increase its contribution to employment, the informal sector, which accounts for between 60 to 80 per cent of total employment in Africa, needs to be addressed.

C. Africa, a marginal player in global services exports and imports

14. Global exports of services in 2012 were $4.4 trillion, and for developing countries they were $1.3 trillion (at current prices). Total imports of services amounted to an estimated $173 billion in 2012 for Africa while exports of services totalled an estimated $98 billion.[4] In 2012 Africa accounted for only 2.2 per cent of the world's total exports of services compared to 3.6 per cent for developing America, and 24.3 per cent for developing Asia. The continent accounted for 4.0 per cent of total world's services imports compared to 5.2 per cent for developing America and 27.9 per cent for developing Asia. Only 11 African countries have consistently been net services exporters since 2005, 9 of which are dependent on exports of travel (mainly tourism) services. Africa continues to capture a small share of global trade in services because of a lack of strategic support to the sector, hence the need for the continent to build and expand on services trade activities that may generate greater value added.

[3] International Labour Organization, 2014, Global employment trends database, available at http://www.ilo.org/empelm/units/employment-trends/lang--en/index.htm (accessed 24 February 2015).

[4] UNCTADStat database, available at http://unctadstat/EN/Index.html (accessed February 2015).

D. Improved coordination, key to unlocking financial services potential in Africa

15. Since the 1990s the ownership structure of African banks has been radically transformed. Foreign bank ownership in Africa has almost doubled since 1995, rising from 120 to 227 banks by 2009. In Africa foreign bank assets as a share of total bank assets in 2009 was 58 per cent; the OECD equivalent was 38 per cent. Since the global financial crisis, there has been a trend in Africa towards both greater cross-border activity and consolidation in the banking sector.

16. Given the rising prevalence of cross-border banking, for Africa's largest cross-border banks countries will need to consider establishing bank-specific supervisory colleges and strengthen national and regional cross-border supervisory practices. This will require improved central bank coordination, resolution frameworks and stronger burden-sharing arrangements. For those countries and banks where systemic cross-border risks are identified, this may also require greater pan-African coordination and monitoring through the Financial Stability Board Regional Consultative Group for Sub-Saharan Africa and the Community of African Banking Supervisors.

17. While most African countries initiated financial sector liberalization in the context of structural adjustment programmes during the 1980s and 1990s, the liberalization of financial services is now conducted in the context of the General Agreement on Trade in Services (GATS). Indeed, financial services represent the third most committed services sector in African GATS schedules, after tourism and business services. A total of 20 African member States have made important commitments that are specific to financial services. Most limitations in Africa pertain to authorization and licensing requirements, as well as limitations on the form, amount or control of the investment of foreign banks mostly in mode 3 and mode 4. These two modes are conduits for investment and employment decisions on foreign banking activity in a given market and can influence the decision of a foreign bank seeking local presence abroad. Hence, they are critical elements that also reflect the level of restrictiveness foreign banking faces in Africa and have influenced the international banking scene taking shape in the continent today.

E. African countries – a need to explore potential global and regional value chains in goods and services

18. Services are also enablers of many production and sales processes. There are important input–output linkages between manufacturing and services. For example, in South Africa, of all domestically produced intermediate inputs into manufacturing, 31.4 per cent are purchased from the services sector while 18.6 per cent of all domestically sourced intermediate inputs into services come from manufacturing. There is significant scope for African countries to position themselves as reliable and competitive services suppliers in manufacturing value chains. Global value chains can offer significant new opportunities for structural transformation in Africa. About 60 per cent of global trade consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption.[5]

[5] UNCTAD, 2013, *World Investment Report 2013 – Global Value Chains: Investment and Trade for Development* (United Nations publication, Sales No. E.13.II.D.5, New York and Geneva).

II. Main messages and recommendations

19. The policy analysis and discussion outlined in this overview can be recast in six main messages. First, the services sector has the potential to become a significant driver of sustained economic growth and structural transformation in Africa. This would, however, require policies to be aligned to build complementarities between the services sector and other sectors of the economy especially manufacturing. Several services are likely to exert positive spillover effects on other sectors of the economy (e.g. information and communications technology, finance and infrastructure, but also distribution and logistics). Africa must make greater efforts to link these services and industries, that is, to prioritize those services that are relevant for a value chain that is strategically important to a certain country. (For example, Botswana has generated higher benefits from its diamonds industry since it promoted downstream linkages with cutting and polishing activities; similarly the Nigerian oil industry has created some strong upstream linkages with exploration, project and construction services). A precondition for this requires a proactive policy response from African Governments, with measures tailored to support businesses in the services sector and forging public–private partnerships.

20. Second, services provision remains suboptimal and is delivered at a high cost. Various regulatory and policy shortcomings prevail, which explain these inefficiencies and impede Africa from fully capitalizing on its services sector potential. For Africa to better harness the potential of its services economy, regulation of and policies for infrastructure services need to better target existing market failures including issues of accessibility, quality, affordability and competition. Indeed, because infrastructure services have a strong bearing on the cost structure of many of Africa's exports, including commodities and manufactures, improving the quality and quantity of such services will enhance the continent's competitiveness. This is all the more important if the continent is to achieve structural transformation.

21. Third, for Africa to build on established intra-African trade – which has a more sophisticated composition than its commodity exports to the rest of the world and a higher intensity of services component – the link between human capital and high value added services (i.e. having good software developers, well-trained financial expertise etc.) needs to be better supported. This requires stronger State intervention in developing technical training systems and subsidizing higher education. Without this State support, it will be difficult for most African countries to exploit "knowledge-intensive trade" opportunities and to insert themselves as service suppliers into both higher value global and regional value chains for goods and services.

22. The fourth message relates to the regulatory challenges and opportunities of liberalizing services trade. Although African countries have made efforts to regulate services trade at the national, regional and global levels, a policy disconnect prevails between these three levels, hampering Africa's opportunities to tap into the benefits of greater services trade. Policymakers and negotiators at these three levels need to cooperate and engage to bridge this divide, so that Africa may better harness the gains of greater services trade and market integration.

23. The fifth message places emphasis on the potential role of services enhancing existing regional integration efforts and processes. In order to boost the prospective benefits of greater intra-African trade, the continental free trade area (CFTA) negotiations need to incorporate services trade. The impact of a continent-wide free trade area will only be meaningful for Africa if services are opened up in parallel with trade in goods.

24. Finally, recent studies suggest that the informal sector ranges from 50 to 80 per cent of GDP in Africa. It inhibits enterprise development and the continent's services trade

potential. Specific measures are required to support the formalization of informal service providers with a view to enhancing their productivity. This can be achieved, for example, through the modernization of transport and logistics value chains by addressing the efficacy and fairness of the tax system, lowering corruption and regulatory burdens, providing small business support services, improving access to credit for small firms and enforcing compliance with regulatory frameworks to improve the efficiency and accountability of public institutions.

25. In addition to these key messages, the report makes specific policy recommendations on how to better harness Africa's services trade potential and the related developmental, employment and growth benefits. The main policy recommendations are discussed below.

26. From the non-exhaustive mapping exercise of existing services trade policies in the African continent at the national, regional and global levels, it became apparent that a disconnect between these three levels exist, which needs to be bridged if Africa is to harness the benefits of greater trade in services.

27. The following policy recommendations are aimed at bridging this hiatus in a practical manner:

(a) Make use of multi-stakeholder consultations for policy processes at all levels

28. African countries have made strides to regulate services trade at the national, regional and global levels. Nonetheless, a policy disconnect prevails between these three levels, hampering Africa's opportunities to tap into the benefits of greater services trade. Policymakers and negotiators at these three levels need to link and engage to bridge this divide, so that Africa may better harness the gains of greater services trade and market integration.

29. Efforts to align the different levels of policy will require political will, considerable resources and a sensitization and advocacy agenda. African member States and regional economic communities have a number of tools available (such as multi-stakeholder consultation processes, interministerial and parliamentary coordination groups and working parties, focus groups, and surveys) to inform and support these policy processes. This exercise needs to start early on, at a policy design stage which embraces multi-stakeholder approaches and consultation.

(b) Increase efforts to operationalize and implement existing African Union decisions and institutions on trade

30. National and regional efforts to transpose African Union decisions must be doubled up, as evidence on the ground suggests that part of the disconnect between policies and realities lies in the absence of operationalization and mainstreaming of services trade into existing policy instruments, including monitoring and evaluation. The national mapping of services policies exercise suggests that there is a poor formulation of a services development strategy at both the national and regional economic community levels, which could trump any efforts at the continental level to develop a pan-African strategy for services. In parallel, existing institutions, such as the High-Level African Trade Committee, need to be vested with sufficient resources and autonomy to implement a services trade agenda that is coherent and coordinated at the three policy levels.

(c) Include services trade in any strategy on continental free trade area negotiations

31. In order to boost the prospective benefits of greater intra-African trade, the CFTA negotiations need to incorporate services trade. The impact of a continent-wide free trade area will only be meaningful for Africa if services are opened up in conjunction with

liberalizing trade in goods, especially as many services are critical trade enablers and have the potential to create important backward and forward linkages in the services economy that give rise to employment and growth opportunities.

32. There are also several policy recommendations that address the financial sector, as this services subsector has evolved rapidly in recent years. As Africa becomes increasingly integrated into global financial markets through foreign banking, there are several potential pitfalls that African policymakers and regulators need to both avoid and consider when exploring opportunities to harness greater capital flows towards improving productive capacity and economic diversification for a transformational agenda in the continent. African policymakers must improve the prudential regulation of the sector.

(d) Address structural impediments to finance

33. An imperative for realizing the benefits of a prosperous and efficient financial services sector is that Africa tackles critical structural impediments that burden financial sector development, growth and inclusion. These impediments include poor infrastructure, monopolies and inadequate regulation of the sector. Many African member States still need to introduce policies which foster greater domestic competition and address financial market concentration. Greater financial sector diversification and competition through better regulation could also reduce the impact of external shocks. Measures to help banks deal with regulatory hurdles that constrain access to finance might include making more State benefits available electronically and providing official identification cards to make it easier for banks to verify the identity of potential customers, thereby easing access to financial services for the unbanked.

34. In tackling the chronic undersupply of financial services in rural areas, regulation can also be instrumental to tackle financial market information asymmetries and moral hazard while supporting government efforts to improve financial inclusion, integrity and stability. Major possible reform areas include improving property rights regimes; using the extensive rural branch networks of State and development banks to extend access quickly and relatively cheaply to rural financial services; developing regulatory systems that engender confidence in the role of non-bank financial institutions in rural savings mobilization and as channels for rural payments and transfer of remittances; diversifying the supply of financial products and services in the banking sector; and regionalizing financial markets through legal harmonization and cross-listing at the regional level.

(e) Align regional and multilateral regulatory frameworks for financial services

35. Africa could also benefit from improved regulation by ensuring there is greater consistency in the regional and multilateral frameworks that already exist for financial services. For example, prudential regulation appears to be overlooked in many African GATS schedules of commitments; this is an area where African countries wishing to regulate the entry of foreign banks should be able to exercise discretion on the basis of their prudential regulation. In addition, countries which are yet to liberalize their financial services sector, have to make sure they use the flexibilities the system has to offer, by inscribing prudential carve-outs as most favoured nation exemptions. The definition of these carve-outs will require greater coordination between trade policymakers and central banks as well as other financial sector authorities and stakeholders.

36. Furthermore, greater efforts to align the sector with existing regional regulation, such as the protocols covering aspects of financial sector integration and/or investment, such as the Arab Maghreb Union, East African Community, Economic Community of West African States and Southern African Development Community, will be required. As the continent makes greater progress in regional integration, here too, the formulation of carve-

outs will be required to cater to financial integration and the emergence of a regional banking sector.

37. The above-mentioned disconnect is counterproductive especially with respect to regulatory issues and frustrates deeper regional trade. For instance, financial services regulatory frameworks in some countries (e.g. in a regional economic community) are contrary to regional financial services and investment protocols which are supposed to be binding on member States of that regional economic community. A national strategy or plan that incorporates financial services must be aligned to regional plans, as per the country's regional economic community membership, and also to global issues. In addition, these strategies must clearly define services as per the four modes of GATS and also identify embedded and embodied services as a way to properly diagnose and understand the services sectors they deal with or plan for.

Conclusion

38. Promoting the integrated treatment of trade, investment, finance and technology for inclusive and sustainable development could be a key sub-theme of the fourteenth session of the United Nations Conference on Trade and Development (UNCTAD XIV). Fostering the contribution to growth, trade and development of services in Africa is one of the key means through which UNCTAD XIV can begin to realize this objective and support regional integration processes in Africa en route to a CFTA. The African Union has committed itself to the creation of a CFTA which encompasses free trade in both goods and services by 2017. This report welcomes the commitment to a CFTA but notes that African countries have not fully reaped the gains from services trade through the GATS and bilateral investment treaties. Furthermore, the report stresses the need for Governments to address a major policy disconnect between national, regional and global levels, which needs to be bridged if Africa is to harness the benefits of greater trade in services. Finally, it stresses that the services sector has the potential to become a significant driver of sustained economic growth and structural transformation in Africa, if effective regulatory frameworks and policies are aligned to build complementarities between the services sector and other sectors of the economy, especially manufacturing.

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UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields

Progress made in the implementation of the outcomes of the major United Nations conferences and summits, and UNCTAD contributions

Note by the UNCTAD secretariat

Executive summary

Pursuant to United Nations General Assembly resolution 57/270 B and paragraph 18 (n) of the Doha Mandate, UNCTAD should contribute to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social and related fields. UNCTAD also contributes to the achievement of internationally agreed development goals, including the Millennium Development Goals, and the ongoing work on the post-2015 development agenda. This document provides a brief review of the progress made in the relevant thematic areas and UNCTAD contributions thereto during the period July 2014–June 2015.

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Introduction

1. The United Nations General Assembly, in its resolution 57/270 B, stressed the need to "make maximum use of existing United Nations mechanisms for the purpose of reviewing the implementation of commitments made within the United Nations system in key areas of development" (para. 27). In this regard, it invited the Trade and Development Board to "contribute, within its mandate, to the implementation and to the review of progress made in the implementation of the outcomes of the major United Nations conferences and summits, under its relevant agenda items" (para. 27 (a)).

2. The thirteenth session of the United Nations Conference on Trade and Development, held in Doha in April 2012, agreed that UNCTAD should "implement and follow up, as appropriate, relevant outcomes from global conferences and summits on development" (Doha Mandate, para. 18 (n)).

3. The present document is a review of progress made in the implementation of the outcomes of the major United Nations conferences and summits and UNCTAD contributions in this respect, during the period July 2014 – June 2015.

I. International trade

4. Trade plays an important role in economic growth, sustainable development and poverty alleviation. This role has been recognized by major United Nations conferences and summits, as well as, among others, the Doha Mandate and the United Nations Millennium Declaration and the associated Millennium Development Goals.

A. Progress made

5. Between 2011 and 2014, world trade in goods and services increased by close to $1 trillion, to reach about $24 trillion in 2014 (with services accounting for about $5 trillion), with developing countries accounting for about $11 trillion of world exports. Despite having greatly increased during the last decade, trade among developing countries (i.e. South–South trade) has also stagnated since 2011. South–South trade in goods in 2013 was valued at about $5 trillion, a level close to that of trade between developed countries (i.e. North–North trade). This figure represents more than half of overall developing country trade. The share varies by region, ranging from above 40 per cent in Latin America and countries with economies in transition, to almost 70 per cent in South Asia and East Asia. Although a proportion of South–South trade encompasses intraregional flows, the largest share involves trade with the East Asian region.

6. A major challenge is related to food security. World food demand is rapidly increasing, with rising income levels and strong population growth. Although many countries have developed, and could possibly further develop, food security policies, including by subsidizing the production of staple foods, such strategies may not always be possible (i.e. due to geography), economically viable or optimal and environmentally sustainable.

B. UNCTAD contributions

7. The twelfth meeting of the Conference of the Parties to the Convention on Biological Diversity was held in Pyeongchang, Republic of Korea, from 6 to 17 October 2014. UNCTAD contributed to the Conference of the Party discussions.

8. With regard to the BioTrade Initiative, the Third BioTrade Congress, held during the Business and Biodiversity Forum of the Conference of the Parties, provided a platform for public and private sectors, civil society and international and regional organizations to share experiences and explore avenues on how to foster sustainable business engagement in biotrade activities, and on ways to enhance an enabling policy framework for biotrade activities, including in post-2015 development agenda strategies. The event raised the profile of UNCTAD as a key player in promoting sustainable development goals and poverty reduction through its activities for the protection and promotion of biodiversity and the sustainable use of biodiversity.

9. UNCTAD attended and contributed to the deliberations of the third International Conference on Small Island Developing States (SIDS), held in Apia, Samoa from 1 to 4 September 2014. UNCTAD organized a high-level side event on harnessing the oceanic wealth of SIDS through sound trade specialization and sustainable and resilient maritime transport. The event highlighted the importance of moving the economic frontier in SIDS towards new and sustainable ocean-based sectors (e.g. fisheries, tourism, renewable energy and maritime transportation) that would allow higher levels of diversification and trade specialization. The event also underlined the importance of resilient transport systems to address vulnerabilities and low connectivity.

10. Since the adoption of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices by the General Assembly in its resolution 35/63, UNCTAD has played a key role in assisting developing countries and countries with economies in transition in the establishment of their competition regimes. Technical assistance, capacity-building and advisory services provided by UNCTAD, at both national and regional levels, includes assisting countries in setting up legal frameworks, strengthening their institutional capacities for better implementation of competition laws and undertaking competition advocacy to create a competition culture and promote consumer welfare.

11. The sixth United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices had invited UNCTAD to convene two ad hoc expert meetings on the interface between competition policy and consumer welfare. The first Ad Hoc Expert Meeting on Consumer Protection, held on 12 and 13 July 2012, requested the secretariat to prepare a draft report containing proposals for a revision of the *United Nations Guidelines for Consumer Protection*, for consideration by the Intergovernmental Group of Experts on Competition Law and Policy at its thirteenth session. The second Ad Hoc Expert Meeting on Consumer Protection was convened on 11 and 12 July 2013, on the occasion of the thirteenth session of the Intergovernmental Group of Experts, and deliberated the implementation report prepared by UNCTAD. A proposal was accepted to form four working groups to assist the secretariat in preparing a report to the seventh United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, including a working group to consider the implementation of the *United Nations Guidelines for Consumer Protection*. An additional Ad Hoc Expert Meeting on Consumer Protection discussed a report on modalities for the revision of the Guidelines and its conclusions, plus further issues highlighted by member States and stakeholders and proposed for inclusion in the revision of the Guidelines.

12. The fourteenth session of the Intergovernmental Group of Experts on Competition Law and Policy was held from 8 to 10 July 2014. The Group conducted voluntary peer reviews of competition law and policy in Namibia, the Philippines and Seychelles.

13. A substantial number of activities were undertaken to address the needs of developing countries in assessing the developmental implications of the outcomes of the ninth Ministerial Conference of the World Trade Organization (WTO), held in December 2013 in Bali, Indonesia. UNCTAD organized and substantively contributed to the Least Developed Countries Group Ambassadors and Experts Retreat, held in February 2015, for defining a post-Bali work programme to conclude the outstanding issues in the Doha Round and prepare for the tenth Ministerial Conference.

14. UNCTAD provided substantive support to member States during discussions of the sixty-ninth session of the General Assembly on international trade and development issues. The report of the Secretary-General of the United Nations on international trade and development highlighted that the "international trading system is facing fragmentation as the prevalence of regional and 'plurilateral' processes increases, challenging the centrality and credibility of the multilateral trading system" (A/69/179).

15. UNCTAD contributed to various migration and development events, including those organized by the Global Migration Group, International Organization for Migration, World Bank and WTO. UNCTAD made contributions regarding the trade and development aspects of migration and participated in the first preparatory meeting of Turkey's Chair of the Global Forum on Migration and Development, held in Geneva, Switzerland, on 22 October 2014.

16. UNCTAD contributed to the United Nations Inter-agency and Expert Group on Millennium Development Goal indicators. UNCTAD contributions, in close collaboration with the International Trade Centre and WTO, entail the annual provision of data and analyses for updates on Millennium Development Goal 8 indicators on market access, namely indicator 8.6 on the proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty, and indicator 8.7 on average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries. The Inter-agency and Expert Group prepared the *Millennium Development Goals Report 2014*, which presented the annual assessment of global progress towards achieving the Millennium Development Goals.

17. UNCTAD also contributed to the Millennium Development Goal Gap Task Force, which was created by the Secretary-General of the United Nations to improve the monitoring of Millennium Development Goal 8 by leveraging inter-agency coordination. UNCTAD provided analytical inputs to the chapter on market access (trade) of the *Millennium Development Goal Gap Task Force Report 2014: The State of the Global Partnership for Development*.

18. The Agreement on Trade Facilitation of WTO requires the publication and availability of information about import and export procedures and regulations. UNCTAD collects data on import and export laws and regulations and classifies them in the UNCTAD and Multi-Agency Support Team international classification of non-tariff measures.

19. As a member of the inter-agency technical support team, UNCTAD provides technical inputs on the role of trade as a means of implementation of the sustainable development goals to the ongoing intergovernmental negotiations on the post-2015 development agenda.

20. UNCTAD actively participated in all aid for trade-related meetings organized by the Organization for Economic Cooperation and Development and WTO. UNCTAD also contributed a chapter entitled "Trade in the post-2015 development agenda" to the publication *Aid for Trade at a Glance 2015*.

II. Commodities

21. Commodities are reflected in the outcomes of major United Nations conferences and summits. The General Assembly, in its resolution 60/1 on the 2005 World Summit outcome, emphasized the "need to address the impact of weak and volatile commodity prices and support the efforts of commodity-dependent countries to restructure, diversify and strengthen the competitiveness of their commodity sectors" (para. 33). The International Conference on Financing for Development held in 2002 agreed that "multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports" (Monterrey Consensus, para. 37).

22. The outcome document of the United Nations Conference on Sustainable Development recognized that poverty eradication, sustainable patterns of consumption and production and the management of natural resources are inextricably linked to sustainable development (para. 4). General Assembly resolution 68/203 on commodities reflected the importance of maximizing the contribution of the commodity sector to sustained economic growth and sustainable development.

23. The twelfth session of the United Nations Conference on Trade and Development, held in Accra in April 2008, provided an all-inclusive mandate that anchors the work of the UNCTAD secretariat in the areas of commodity trade and development (Accra Accord, para. 91). The Doha Mandate calls on policymakers to identify and implement appropriate policies at all levels to address the impacts of volatility of commodity prices on vulnerable groups and notes the importance of supporting commodity-dependent developing countries in formulating sustainable and inclusive development strategies, including those that promote value addition and economic diversification (para. 27).

A. Progress made

24. Commodity prices have generally continued to display a downward trend, observed throughout 2014. High stock levels and good harvests of major crops have influenced food prices. The decline in base metals prices has been due to weak demand, ample supply and high stock levels. In January 2015, oil prices had more than halved relative to their level in mid-2014. By June 2015, they had slightly recovered, but remained 30 to 40 per cent lower than their level one year earlier. Factors behind the drop in oil prices include shale oil and gas production in the United States of America, weak global demand and high stock levels. International commodity prices are forecasted to remain at high levels in 2015, by historical standards, but face downward pressure.

B. UNCTAD contributions

25. UNCTAD implemented a broad range of activities, including policy analysis, intergovernmental meetings and technical assistance, to assist commodity-exporting developing countries in addressing commodity-related challenges, including improving their productive capacities and harnessing the gains from commodities production and trade.

26. The seventh session of the Multi-year Expert Meeting on Commodities and Development, held on 15 and 16 April 2015, debated recent developments and challenges in commodity markets and policy options for commodity-based inclusive growth and sustainable development. Key recommended policies included economic diversification and the intensification of value added processing; design and improvement of appropriate policies against commodity price volatility and policies ensuring food security; increase of access to financial resources while fostering policies against commodity price volatility and policies ensuring food security; and addressing of issues related to market access.

27. The sixth Global Commodities Forum, held on 13 and 14 April 2015, explored the challenges and opportunities of trade in commodities. The Forum examined the prospects for transparency-themed governance reform in the Swiss trading sector. The Forum also discussed different perspectives on the prospects for renewables in a lower-carbon energy mix, and examined the implications of the end of the 2003–2011 commodity boom on development and terms of trade.

28. UNCTAD collaborates with members of United Nations–Energy, the mechanism for inter-agency collaboration in the field of energy, to help create a coherent approach towards a sustainable energy system, especially in developing countries. UNCTAD organized an Oil-Gas-Mines Special Event, held in October 2014 in Geneva, with the theme of achieving sustainable development goals through investment in oil and gas field services. The event highlighted opportunities that projects in oil, gas and mining generated in terms of field services.

29. Publications in 2015 included, in April, the *State of Commodity Dependence 2014* report, which compiles a range of statistics on commodity dependence at the country level, covering 135 developing countries.

III. Investment and enterprise development

30. The outcome of the first International Conference on Financing for Development, the Monterrey Consensus, emphasized the importance of international private capital flows, notably foreign direct investment, to support national and global development efforts. In addition, the Plan of Implementation of the World Summit on Sustainable Development held in 2002 underscored the contribution of foreign direct investment in advancing sustainable development.

31. General Assembly resolution 60/1 on the 2005 World Summit outcome affirms the resolution of Heads of State and Government to "encourage greater direct investment, including foreign investment, in developing countries and countries with economies in transition to support their development activities and to enhance the benefits they can derive from such investments" (para. 25). The resolution acknowledges related policy areas such as the vital role of the private sector (para. 23 (e)) and makes commitments in other related policy areas such as good governance and the promotion of small and medium-sized enterprises (para. 24 (a)) and corporate responsibility and accountability (para. 24 (c)).

32. In 2008, the International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus recognized the role of foreign direct investment as a vital complement to "national and international development efforts" (Doha Declaration on Financing for Development, para. 23). In 2011, the declaration of the fourth United Nations Conference on the Least Developed Countries underlined that a "dynamic, well-functioning and socially responsible private sector, small and medium-sized enterprises in particular, and an appropriate legal framework are crucial for promoting entrepreneurship, investment, competition, innovation and economic diversification" (para. 8 (b)).

33. Finally, the outcome document of the United Nations Conference on Sustainable Development called for an "enabling environment at the national and international levels, as well as continued and strengthened international cooperation, particularly in the areas of… technology transfer, as mutually agreed, and innovation, entrepreneurship, capacity-building, transparency and accountability" (para. 19).

A. Progress made

34. Foreign direct investment flows retreated by 13 per cent, to $1.24 trillion, in 2014, muted by regional economic weakness, volatility in currency and commodity markets and increased geopolitical risk. Developing economies widened their lead as preferred destinations for global foreign direct investment inflows, receiving nearly 55 per cent of total flows. Foreign investment flows to developed countries declined by 21 per cent, to a 40 per cent share of total flows, while flows to countries with economies in transition nearly halved.

35. Foreign direct investment outflows from developing countries also showed robust growth. Transnational corporations from developing economies invested almost $500 billion abroad – a 30 per cent rise over the previous year – to give them a record 36 per cent share in global outflows, compared to 12 per cent in 2007. Developing Asia, for the first time, became the world's largest investor region. Outflows from developed countries remained mostly stagnant.

36. UNCTAD forecasts a recovery in foreign direct investment, projecting that flows could rise by 12 per cent to $1.4 trillion in 2015, climbing to $1.5 trillion in 2016, and $1.75 trillion in 2017.

37. In terms of investment policy developments, countries continued to adopt measures to liberalize, promote and facilitate investment. In 2014, more than 80 per cent of measures sought to improve entry conditions and reduce restrictions, with a specific focus on investment facilitation and sector-specific liberalization, notably in the infrastructure and services sectors. Where investment restrictions were introduced, they were mostly related to national security concerns and strategic industries, such as energy and defence. Measures geared to encourage investment in sustainable development-related sectors are still relatively few. Only 8 per cent of measures between 2010 and 2014 were specifically targeted to increase private sector participation in sustainable development-related sectors.

38. Thirty-one new international investment agreements were concluded in 2014, most with provisions related to sustainable development. The total number of international investment agreements grew to 3,271 treaties. There were 42 new investor–State dispute settlement cases in 2014, bringing the total number of known treaty-based claims to 608. Developing countries continue to bear the brunt of these claims, but the share of developed countries is on the rise. Most claimants come from developed countries.

B. UNCTAD contributions

39. In 2014, UNCTAD dedicated both the *World Investment Report* and the World Investment Forum to the post-2015 development agenda process, notably with a view to ensuring private investment involvement in delivering on sustainable development goals. The *World Investment Report 2014* provided an analytical assessment of investment needs to deliver on development, and set out a comprehensive and ambitious action plan for investing in sustainable development, with guidelines on how private sector investment could most effectively contribute to sustainable development goals.

40. The fourth biennial World Investment Forum, which took place from 13 to 16 October 2014 in Geneva, presented these development challenges to global investment leaders under the theme of investing in sustainable development. The Forum sought to secure private sector support for the sustainable development goals process and explore ways to effectively channel private capital towards sustainable development, taking the action plan as a guideline for discussions. The Forum culminated in a chairs' summary of the ministerial round table, which cited the action plan in the *World Investment Report* as an important input in the ongoing multilateral processes to formulate sustainable development goals and find financing for development. The ministerial recommendations will be submitted to key meetings on the road to setting the post-2015 development agenda, notably the third International Conference on Financing for Development (Addis Ababa, 13–16 July 2015) and the United Nations Summit to adopt the post-2015 development agenda (New York, United States, 25–27 September 2015).

41. Subsequent high-level meetings also explored avenues to involve the private sector in post-2015 development agenda objectives. The seventh session of the Investment, Enterprise and Development Commission, held from 20 to 24 April 2015, focused on mobilizing investment for development and, in particular, assessed UNCTAD contributions in this area. The high-level segment of the Commission considered current financing trends and financing options for developing countries and leveraging partnerships and innovative financing mechanisms to maximize their development impact. With regard to the role of entrepreneurship in sustainable development, the Commission discussions considered General Assembly resolutions 67/202 and 69/210 and explored strategies for supporting, in particular, the development of green, social, youth and women's entrepreneurship. Innovative and effective mechanisms to foster easier access to finance for entrepreneurs were also considered.

42. In line with the emphasis of the Monterrey Consensus on the need for a transparent and predictable investment environment, the UNCTAD work programme supports many countries, particularly least developed countries, through policy analysis and technical assistance that focus on capacity-building and fortifying institutions to foster a pro-development investment climate. With regard to investment promotion, a green investment hub was developed in 2014. In addition, the 2015 Investment Promotion Agency Awards honoured such agencies for their work in advancing environmentally sustainable investment in their countries.

43. In 2014, investment policy reviews continued to be conducted, with the overarching aim of helping countries align their investment frameworks with development objectives, to enhance benefits from foreign direct investment. Reviews for 39 countries – half of which are least developed countries – have been completed to date, and work continues on another four reviews.

44. At the international investment policy level, UNCTAD continued to support countries in their search for international investment agreement reform options that will better align the international investment agreements regime with sustainable development principles. UNCTAD's Investment Policy Framework for Sustainable Development is a principal contribution in this area and countries continue to access the framework to remodel their international investment agreement policies. The *World Investment Report 2015* built on this contribution by proposing an action menu for reforming the regime. Policy analysis work was supplemented by consensus building efforts, including the Expert Meeting on the Transformation of the International Investment Agreement Regime, held in February 2015, which was attended by a large number of leading stakeholders in international investment agreements. Capacity-building efforts to assist, in a practical manner, countries negotiating investment agreements also continued during the year.

45. The Monterrey Consensus urges special efforts in the area of corporate governance. In this context, the United Nations sustainable stock exchanges initiative, co-organized by UNCTAD, has become a strong force for inducing responsible corporate behaviour. Twenty-two stock exchanges have joined the initiative, representing 17,000 companies with a combined market capitalization of $36 trillion. UNCTAD also organized the thirty-first session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, on the margins of the World Investment Forum 2014, with discussions focused on monitoring compliance and enforcement of international reporting requirements.

46. The Monterrey Consensus notes that for the mobilization of private finance for development, it is critical to foster a well-functioning business sector. In this context, UNCTAD continued its technical assistance for entrepreneurship development, including through the Empretec programme, which is now present in 36 countries, and has trained 361,000 entrepreneurs since its inception in 1988.

47. In line with the Beijing Declaration and Platform for Action of the fourth World Conference on Women, which calls for the advancement of women's rights, including their economic independence, UNCTAD undertook several efforts to mainstream women's empowerment in its activities. In 2014, a report entitled *Investment by Transnational Corporations and Gender: Preliminary Assessment and Way Forward* was published, which contains targeted policy and corporate action recommendations to ensure that the operations of transnational corporations benefit women in developing countries. Empretec continued efforts to advance the development of women entrepreneurs, notably through its Women in Business Awards – presented at the World Investment Forum 2014 – that highlighted the achievements of women-led businesses in 11 developing countries and least developed countries.

IV. Coherence of the international monetary, financial and trading systems

48. Building on the outcomes of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, held in June 2009, the Doha Mandate notes the significant role of effective macroeconomic policies and development strategies in crisis prevention and recovery. The Mandate points to regional integration and interregional cooperation as means to support national development strategies, reduce external vulnerabilities and enhance the global governance system.

49. Reaffirming the Monterrey Consensus and the Doha Declaration on Financing for Development, the Doha Mandate highlights the importance for development of the mobilization and effective utilization of all sources of financing. In particular, it notes the role of finance in supporting the real economy for sustained, inclusive and equitable economic growth and sustainable development and states that all countries, developed and developing alike, can pay serious political, social and economic costs from financial shocks.

A. Progress made

50. The world economy has yet to escape the slow growth path of the past four years. Policymakers worldwide, especially in systemically important economies, need to assess approaches and pay closer attention to signs of ongoing economic turbulence. World economic growth showed modest improvement in 2014, though it remains significantly below its pre-crisis highs. Global growth increased moderately, to between

2.5 and 3 per cent in 2014, essentially due to growth in developed countries, improving from 1.3 to 1.8 per cent in 2014, while developing countries grew between 4.5 and 5 per cent, and countries with economies in transition continue to experience weak growth.

51. The policy mix in developed economies has been comprised, to varying degrees, of a combination of fiscal austerity, wage containment and monetary expansion in hopes of boosting investor confidence. In emerging economies, the extent to which domestic demand expansion has been backed by income expansion or by unsustainable asset bubbles and excessive consumer borrowing is still unclear. The potential vulnerability of developing and emerging economies is exacerbated by persistent weaknesses in the international financial architecture. In such circumstances, capital flows can have significant, and not always welcome, effects on the real economy and on the ability of policymakers to respond to unforeseen shocks.

B. UNCTAD contributions

52. The *Trade and Development Report 2014: Global Governance and Policy Space for Development*, reviewed recent trends in the world economy, examining the consistency and sustainability of the economic policies currently followed by key countries and groups of countries, and analysing how financial spillovers affected global economic interdependence. The report addressed the evolution and current conditions of the policy space needed for implementing growth-enhancing and inclusive development strategies, and discussed how countries could better manage capital flows in order to expand their policy spaces for pursuing their development strategies. In addition, the report highlighted problems arising from the current international investment framework and the related ad hoc arbitrage tribunals that had assumed important law-making functions usually allocated to States. The report considered policy space as depending not only on existing rules and commitments made in the WTO Agreement on Trade Facilitation and other bilateral or plurilateral agreements, but also on the possibility of mobilizing resources for financing industrial policies, investment and growth. Finally, the report highlighted that from a developmental State point of view, fiscal space was a key aspect of policy space. In this context, developing countries needed to look at ways to address the loss of revenues stemming from illicit financial flows, tax havens and the inadequate taxation of the extractive industries.

53. Policy briefs were produced in order to present research results in a shorter and more accessible format, aimed at synthesizing topical debates, with a particular focus on issues relating to the debate on finance for development and the implementation of sustainable development goals.

54. UNCTAD continued to play an active role in providing advisory services to the Group of 20 on issues related to macroeconomic and development policies, such as employment, global imbalances and global economic governance, including the global spillover effects of macroeconomic policies in developed countries. In particular, UNCTAD participated in meetings of the Group of 20 Working Group on the Framework for Strong, Sustainable and Balanced Growth.

55. UNCTAD continued its capacity-building projects in West and Central Africa and Latin America and the Caribbean, aiming to help countries strengthen their capacities for pro-growth macroeconomic management and enhanced regional financial and monetary cooperation. New research was completed on the impact of regional financial and monetary union in West Africa and on the requirements to support physical interregional infrastructure projects in Latin America and elsewhere. In June 2015, UNCTAD hosted a seminar on financial integration and cooperation in West and Central Africa. Senior policymakers from ministries, regional development banks, central banks and United

Nations agencies discussed the policies needed to enable long-term development finance to play a role in promoting interregional infrastructure investment and interregional trade.

C. UNCTAD contributions on debt and development finance

56. In 2014, UNCTAD prepared the report of the Secretary-General of the United Nations on external debt sustainability and development. The report included a comprehensive analysis of the external debt situation and debt servicing problems faced by developing countries and countries with economies in transition, with a special emphasis on least developed countries. It described new developments and trends in external debt, official development assistance and related areas of development finance, discussed various issues related to the design of a structured mechanism for dealing with sovereign debt restructuring, as well as the role of credit rating agencies, and provided a basis for the deliberation of related policy issues. As part of this work, UNCTAD also facilitates negotiations among Member States for the General Assembly resolution on external debt sustainability and development.

57. UNCTAD also assisted a number of least developed countries through its project on building capacity in regulatory and institutional sovereign debt governance. An initial workshop took place in Kathmandu on 30 and 31 March 2015, with participants from the following five least developed countries: Bangladesh, Haiti, Mauritania, Nepal and Togo. The aim of the project is to promote the enhanced responsibility of the parties involved in sovereign lending and borrowing and more generally in sovereign debt governance.

58. The General Assembly, in its resolution 69/247, established an ad hoc committee to elaborate a multilateral legal framework for sovereign debt restructuring processes. UNCTAD is the secretariat of the ad hoc committee. Three meetings of the ad hoc committee were organized in New York in February, April and June 2015.

59. UNCTAD also provides support to debtor countries in their preparations for negotiations on rescheduling or restructuring bilateral official debt in the framework of the Paris Club.

60. It is recognized, through the Millennium Development Goals, that building and retaining strong national capacities in the area of debt management is essential in the goal to reduce poverty. As a member of the Millennium Development Goal Gap Task Force, UNCTAD provides feedback and inputs in the preparation of the *Millennium Development Goal Gap Task Force Report* in the area of external debt sustainability, under Millennium Development Goal 8.

61. In addition, UNCTAD, under the project on promoting responsible sovereign lending and borrowing, has formulated a set of principles to guide responsible sovereign lending and borrowing practices, following extensive consultations with prominent experts in the fields of law, finance and economics. The project seeks to establish internationally accepted principles for responsible sovereign financing, an important issue that requires international consideration. The identification of agreed principles is viewed as the first step in the process of preventing (and if necessary resolving) future debt problems. The principles will set the framework from which more detailed guidelines will be elaborated.

62. The UNCTAD Debt Management and Financial Analysis System Programme, a leading provider of technical cooperation and advisory services in debt management, continued to provide assistance to developing countries in order to improve their capacity to manage debt in a sustainable manner, with a specific focus on least developed countries. Working directly at the country level in 57 countries and with 85 institutions, during the reporting period, to deliver practical assistance in this critical area, the Programme helped

strengthen the capacity of users to handle the day-to-day management of public liabilities and produce reliable debt data for policymaking purposes.

V. Science and technology for development, including information and communications technologies

63. The World Summit on the Information Society (WSIS) adopted a common vision of a people-centred, inclusive and development-oriented information society. The Summit adopted four outcome documents that seek to translate this vision into concrete objectives, goals and targets, to be met by 2015, along with 11 action lines and main themes. UNCTAD, through the Commission on Science and Technology for Development, was designated by the United Nations Economic and Social Council to act as the focal point in the system-wide follow-up to the outcomes of the Summit. In addition, UNCTAD is a co-facilitator of the action line related to e-business and contributes to measuring progress towards the Summit targets through the Partnership on Measuring Information and Communications Technologies for Development.

A. Progress made

64. There has been continued growth in the adoption and use of information and communications technologies (ICTs) in both developed and developing countries. Globally, the number of mobile-cellular telephone subscriptions has surpassed 6.9 billion. Nonetheless, many rural and remote regions of developing countries have yet to be covered by mobile networks, and many citizens cannot afford mobile telephones. Internet use also continues to expand, with more than 2.9 billion Internet users worldwide. An increasing proportion of users have access to high-speed broadband networks and services, but access is neither ubiquitous nor affordable in large areas of developing countries. Despite the positive developments towards narrowing the digital divide, additional attention is needed to ensure that developing countries are able to leverage ICTs for development as applications and services continue to evolve.

B. UNCTAD contributions

65. The Commission on Science and Technology for Development continued to monitor the implementation of and follow-up to the outcomes of WSIS at the international and regional levels, and prepared the corresponding annual report of the Secretary-General of the United Nations.

66. As part of the annual follow-up activities, a ministerial round table and a substantive discussion on the 10-year review of progress made in the implementation of the outcomes of WSIS were organized at the eighteenth session of the Commission, held from 4 to 8 May 2015. The Commission discussed the new opportunities presented by changing technology and the spread of ICTs, as well as challenges and the importance of ensuring an enabling environment for the development of ICTs.

67. The Commission noted that, while great progress had been made in increasing access to ICTs and meeting the goals of WSIS, substantial divides remained in connectivity and access between and within countries. In this context, attention was drawn to the extensive evidence provided in the substantive report of the Commission secretariat, entitled *Implementing WSIS Outcomes: A Ten-year Review*.

68. UNCTAD co-organized the WSIS Plus 10 High-level Event in June 2014, together with the International Telecommunication Union and the United Nations Development Programme and the United Nations Educational, Scientific and Cultural Organization. UNCTAD also co-organized the WSIS Forum in May 2015. During the event, UNCTAD organized thematic sessions related to e-business, international e-commerce for developing countries, measuring the information society and the 10-year review of the outcomes of WSIS by the Commission on Science and Technology for Development.

69. The Economic and Social Council, in its resolutions 2013/9 and 2014/27, recommended that the Commission conduct a review of the progress made in the past 10 years in the implementation of the outcomes of WSIS. Accordingly, in addition to its annual WSIS follow-up, the Commission carried out activities for the 10-year review. Substantive discussion on the review was conducted at the eighteenth session of the Commission, as noted above. A collection of inputs from all stakeholders was carried out through a questionnaire posted on the Commission website, resulting in close to 100 written contributions from Governments and other stakeholders. Seven face-to-face consultations were held in the context of other international events, focused on particular regions. A substantive report by the Commission secretariat was prepared in order to assist the Commission in considering the 10-year review, at its eighteenth session. The Commission review will serve as input in the overall review of the outcomes of WSIS to be conducted by the General Assembly in 2015.

70. In its capacity as the Commission secretariat, UNCTAD continued the review of international public policy issues pertaining to the Internet, initiated by the Working Group on Enhanced Cooperation, as recommended by the Economic and Social Council in its resolution 2014/27. The Commission, during its intersessional panel in 2014 and its eighteenth session, discussed the outcomes of the work carried out by the secretariat.

71. The *Information Economy Report 2015* examined how to unlock the potential of e-commerce for developing countries. The report noted that the scope for more inclusive e-commerce was widening due to improved connectivity, the development of new e-commerce services, platforms and solutions and the growth of e-commerce companies in the South. UNCTAD also produced a practical guide on how to empower women entrepreneurs through ICTs and an assessment of the measurement of ICTs and gender.

VI. Countries in special situations

A. Least developed countries

1. Progress made in the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020

72. In accordance with paragraphs 41 (o) and 41 (p) of the Doha Mandate, UNCTAD has been actively supporting the goal of the Programme of Action for the Least Developed Countries of enabling at least half the number of least developed countries to meet the criteria for graduation from least developed country status by 2020 (para. 28).

73. This role involves advisory services and technical assistance to countries with the prospect of graduation from least developed country status, either during the period preceding the graduation decision by the relevant United Nations bodies, or during the (normally three-year) period following this decision and preceding the country's graduation. Following the fourth United Nations Conference on Least Developed Countries, held in Istanbul, Turkey, one State graduated from least developed country status (Samoa, in January 2014), and three additional States were found eligible for graduation

(Equatorial Guinea, Vanuatu and Angola, to graduate in June 2017, December 2017 and December 2018, respectively). During the 2015 review of the United Nations list of least developed countries, the following five countries were found to be pre-eligible for graduation (i.e. countries to be reviewed for full eligibility in March 2018): Bhutan, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste. These States received, or will receive, UNCTAD assistance towards a transition to post-least developed country status.

2. UNCTAD contributions

74. The *Least Developed Countries Report 2014: Growth with Structural Transformation – A Post-2015 Development Agenda* highlighted that least developed countries had enjoyed unprecedented economic growth since 2000, but that most would not meet the majority of the Millennium Development Goals, a situation that the report referred to as the least developed country paradox. The report emphasized the following: least developed countries were trapped in a vicious circle of economic and human underdevelopment; economic growth must be accompanied by structural transformation and the creation of decent jobs in higher productivity activities; the least developed country paradox was rooted in the failure of the Millennium Development Goals to recognize the need for a policy framework that generated transformative growth, and in the inability of the least developed countries to achieve structural transformation; if least developed countries were to meet more ambitious sustainable development goals in a more challenging external environment, they would need to focus on ensuring structural transformation towards a modern and diversified economy; and, in addition to appropriate domestic policies, achieving sustainable development goals in least developed countries would require concerted efforts by the international community, commensurate with the ambition inherent in such goals.

75. UNCTAD is implementing capacity-building activities to strengthen the capacity of policymakers in least developed countries to meet their goals related to the Programme of Action. In October–November 2014, UNCTAD delivered a course in Nepal, entitled Development Policies in the Post-2015 Context. In February 2015, UNCTAD delivered a Regional Course on Key Issues on the International Economic Agenda, for officials and academics from Africa, including from 10 least developed countries.

B. Small island developing States

1. Progress made in the implementation of the elements relevant to UNCTAD of the Small Island Developing States Accelerated Modalities of Action Pathway

76. The General Assembly, in its resolution 65/2, adopted the outcome document of the High-level Review Meeting on the Implementation of the Mauritius Strategy, which requested the consideration of improved and additional measures to more effectively address the unique and particular vulnerabilities and development needs of SIDS. In the preamble to the Pathway – the outcome of the third International Conference on Small Island Developing States, held in Samoa – Member States reaffirmed their commitment "to take urgent and concrete action to address the vulnerability of SIDS" and to find "additional solutions to the major challenges facing SIDS in a concerted manner" (para. 22). The General Assembly resolution and Pathway echo two decades of work by UNCTAD, most of which has focused on making the vulnerability of SIDS a motive for international support measures specific to these States.

77. With regard to trade, as addressed in paragraph 107 of the Pathway, Member States recognized the disadvantages incurred by SIDS, and the need for efforts to support these States. The need for special measures to support the resilience-building efforts of SIDS implies, as a prerequisite, recognizing their status as SIDS and, therefore, the need for an

internationally acceptable list of such States. UNCTAD has been consistently emphasizing the need for a SIDS-related category, a goal difficult to attain in the absence of United Nations criteria for defining SIDS.

2. UNCTAD contributions

78. The pressing need for the special treatment of SIDS in relation to the question of graduation from least developed country status was strongly recalled by high-level representatives of SIDS in Samoa, notably on the occasion of a side event organized by UNCTAD. These shared efforts have recently been partially rewarded, with the decision by the United Nations Committee for Development Policy in March 2015 not to recommend Kiribati's graduation, despite the country's technical qualification for graduation. This move in the United Nations approach to highly vulnerable SIDS, a mark of systemic progress, is to a large extent attributable to advocacy work by UNCTAD.

C. Landlocked developing countries

1. Progress made in the implementation of the elements relevant to UNCTAD of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024

79. The Vienna Programme of Action, adopted in 2014 to provide a new holistic programme centred on addressing the challenges faced by landlocked developing countries, aims to contribute to the eradication of poverty stemming from the landlocked condition, through the implementation of specific actions in identified priority areas.

80. The six priority areas are as follows: fundamental transit policy issues; infrastructure development and maintenance, particularly transport, energy and ICT infrastructure; international trade and trade facilitation; regional integration and cooperation; structural economic transformation; and means of implementation. The main innovative feature of the Vienna Programme of Action is the particular focus on development and expansion of efficient transit systems and transport development, enhancement of competitiveness, expansion of trade, structural transformation, regional cooperation and promotion of inclusive economic growth and sustainable development to reduce poverty, build resilience, bridge economic and social gaps and ultimately help transform landlocked developing countries into landlinked countries.

2. UNCTAD contributions

81. UNCTAD contributed to the second United Nations Conference on Landlocked Developing Countries in implementing the relevant actions and priorities of the Vienna Programme of Action. In collaboration with the Common Fund for Commodities and the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, UNCTAD is implementing a project on identifying growth opportunities and supporting measures to facilitate investment in commodity value chains in landlocked developing countries. The project, to be carried out in Botswana, Mongolia, Paraguay, Uzbekistan and Zambia, aims to carry out a series of country case studies to analyse how the landlocked condition affects capacity to develop a sustainable commodity sector. Primary commodities accounted for more than half of the exports of 27 of the 32 landlocked developing countries in 2011–2014. The heavy dependence of landlocked developing countries on exports of low-value, high-volume primary commodities, without direct access to the sea, undermines their international competitiveness. This situation requires continued efforts to provide efficient overland transport infrastructure, adding value and technological sophistication to primary commodities and coordination with transit neighbours.

82. The aim of the project is to identify and examine growth opportunities and supporting measures that will facilitate the participation of landlocked developing countries in regional and global commodity value chains. The findings and policy recommendations arising from the project will contribute to implementation of the Vienna Programme of Action, by guiding landlocked developing countries on implementing reforms that focus on improving infrastructure, facilitating trade through regional integration and structurally transforming economies through deepening participation in value chains. In addition, the findings and policy recommendations contributed to the High-Level Meeting on the Follow-up to the second United Nations Conference on Landlocked Developing Countries, held in Livingstone, Zambia from 2 to 4 June 2015.

83. UNCTAD successfully implemented a project on enhancing the capacities of landlocked developing countries to attract foreign direct investment for the development and modernization of productive capacities. The project contributed to improving human, institutional and regulatory capacities in beneficiary countries, important for assisting landlocked developing countries in attracting and benefiting from foreign direct investment for the development and modernization of their productive capacities. Through the project, investment guides were published for Bhutan, Burkina Faso and Rwanda. A transition to web-based investment guides, or iGuides, was implemented, and the first iGuides were published, for Burundi, Nepal and Rwanda.